

ESTATE PLANNING

Grantor Retained Annuity Trust (GRAT)

CONCEPT APPLIED:

A grantor funds an irrevocable trust with assets expected to appreciate and retains the right to an annual income payment from the trust. At the end of the trust term, trust assets go to named beneficiaries with little or no gift tax.

HOW IT WORKS:

When the grantor transfers income-producing assets to the GRAT, a “gift value” is calculated based on the initial value plus an interest rate set by the IRS (the applicable federal rate or AFR) *minus* the annuity payments through the end of the GRAT term. If the annuity payments are high enough, the GRAT can be “zeroed out” and no gift tax is due. If the assets appreciate at a rate higher than the AFR when the GRAT is established, the excess growth has the potential to become a tax-free gift to trust beneficiaries.

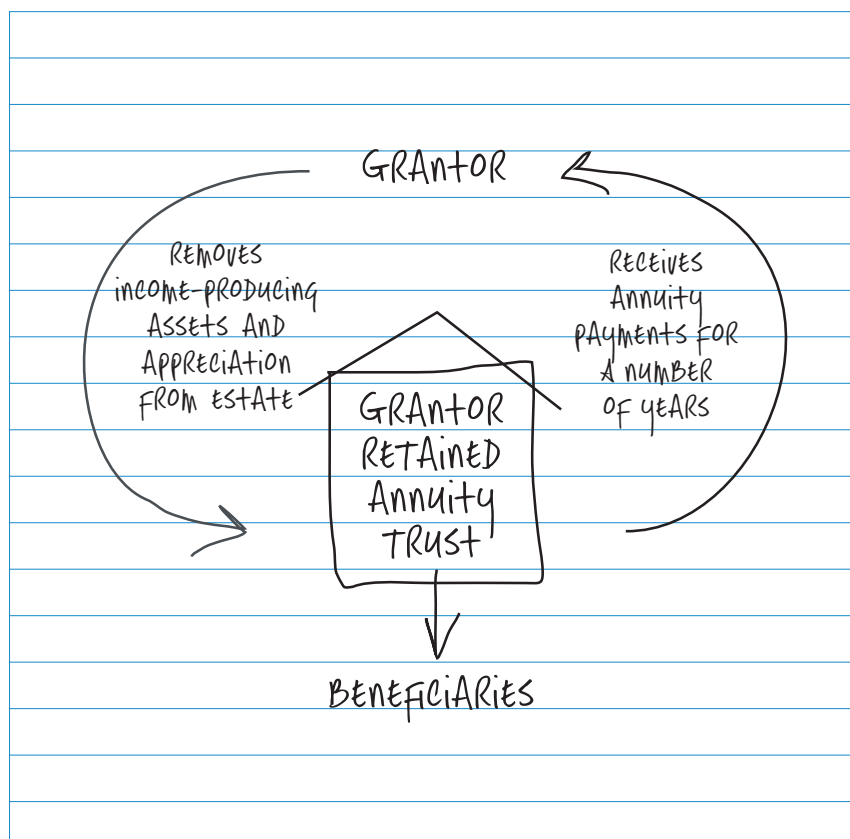
Low AFR + appreciable asset = good time for a GRAT.

WHY IS IT USEFUL?

A GRAT can remove assets from the grantor’s estate and significantly reduce gift taxes on assets transferred to beneficiaries with this caveat: Should the grantor die during the trust term, GRAT assets are included in the grantor’s estate for estate tax purposes.

50 WORDS OR LESS

A GRAT is an irrevocable trust that removes contributed assets from the grantor’s estate, provides the grantor with an income that discounts the gift tax value of the transferred assets (possibly resulting in no gift tax liability), and allows trust assets to grow without additional gift tax.



Copyright 2025, PGI Partners, Inc., 921 East 86th Street, Suite 100, Indianapolis, Indiana 46240. All rights reserved.

Sammons Financial® is the marketing name for Sammons® Financial Group, Inc.'s member companies, including Midland National® Life Insurance Company. Annuities and life insurance are issued by, and product guarantees are solely the responsibility of, Midland National Life Insurance Company.

Neither Midland National® Life Insurance Company nor its agents give legal or tax advice. Consumer are advised to consult with and rely on a qualified legal or tax advisor before entering into or paying additional premiums with respect to such arrangements.

PGI Partners, Inc. is an independent third-party company and is not affiliated with Midland National® Life Insurance Company.

The term financial professional is not intended to imply engagement in an advisory business in which compensation is not related to sales. Financial professionals that are insurance licensed will be paid a commission on the sale of an insurance product.

Trusts should be drafted only by an attorney familiar with such matters. Neither Midland National® Life Insurance Company nor its agents give tax advice.

Midland National® Life Insurance Company does not give tax or legal advice. Please consult a tax advisor before making a gift in relation to insurance that qualifies for gift tax exclusion.

Estate planning is a complicated legal process, and you should consult an attorney for any legal advice and estate planning.

While the primary use of life insurance is death benefit protection, you clients may also have other needs that can be met through life insurance. Please note that Midland National does not require agents to use any of these sales concepts.