

GRATs

Understanding a popular estate planning strategy



For wealthy families, asset growth can be expensive: Every dollar of appreciation above the estate-tax exemption limit (\$15 million in 2026¹) is subject to a hefty federal estate tax rate, which can eat into the wealth that could be transferred to beneficiaries.

How GRATs can help

That's a big reason why grantor-retained annuity trusts, or GRATs, are such a popular estate planning strategy. GRATs allow grantors to essentially "freeze" the value of certain assets for a predetermined period and ultimately to pass any appreciation from those assets to beneficiaries, typically with little or no tax impact. GRATs can be a good solution for those who own assets they think might appreciate substantially—such as shares of a start-up company or publicly traded stock. Here's what you need to know.

How they work

GRATs are irrevocable trusts designed to exist for a limited period. After the individual who establishes the trust (the grantor) transfers assets to the GRAT, they receive annuity payments over the term of the trust until virtually the full original value is returned. The annuity payments can be made by returning assets "in-kind" so that no income tax liability is incurred. In addition to gradually recouping their assets, the grantor must receive a rate of interest on the trust assets that is determined by the IRS. The appreciation of assets in a GRAT occurs outside of the grantor's taxable estate, limiting its size. Assets that remain in the trust at the end of its term are distributed to beneficiaries with no gift tax liability.

How might this work in real life? Let's say you transfer \$1 million worth of assets to your newly created GRAT, which has a four-year term. Each year, approximately a quarter of the original assets' value will be returned to you—that's where the "annuity" in grantor-retained annuity trust comes from. When the GRAT's term expires, any appreciation, minus the interest that's been paid to the grantor, is given to the grantor's beneficiaries.

A valuable repository for fast-growing assets

GRATs provide the greatest value when their assets appreciate quickly. If that hypothetical \$1 million of original GRAT assets were to grow to \$2 million, the so-called remainder interest—\$1 million of appreciation minus the grantor's interest payments—would go to the trust's beneficiaries. GRATs' remainder interests are typically transferred to the grantors' children, either directly or in a trust for their benefit.

Significant asset appreciation may far outstrip the IRS's required rate of interest, which is derived from U.S. Treasury yields and was 5.0% as of June 2026.² That means more wealth would be passed to beneficiaries. And because of their trust treatment, these transferred assets do not count against the grantor's lifetime exemption from estate and gift taxes. If the assets don't appreciate, or even if they depreciate, the grantor gets them all back, in the form of the annuity and interest payments. Administrative fees aside, they are no worse off than if they'd just held the assets outside of the trust.

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¹"What's new — Estate and gift tax"

²"Evan Estate Law Resources, Section 7520 Rates"

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The potential drawbacks

GRATs are not without risks. They are irrevocable trusts, so their creator can't alter the terms or reclaim more or less than the scheduled annuity payments during the trust's term. Mortality risk—the possibility of the grantor dying prior to the expiration of the trust—is another issue, so it's important to consider the grantor's health and life expectancy when establishing a GRAT. If the grantor were to pass away, appreciated assets may become part of their taxable estate, with the beneficiary receiving nothing. As a precaution, the grantor can specify in trust documents that any remaining annuity payments go to a surviving spouse, in which case estate taxes would not be triggered. You also run the risk of wasting time and money setting up a GRAT if the assets underperform.

While GRATs can be an effective means to help minimize tax liabilities, they're just one of many available strategies. Working with our in-house trust management services team, your wealth advisor can help you decide which approach is best suited to your situation and goals.