

## HOUSE APPROVES 10-YEAR MINIMUM FOR GRATS

**T**he Small Business and Infrastructure Jobs Tax Act of 2010, approved by the House, includes a provision which sets a minimum 10-year term for Grantor Retained Annuity Trusts (GRATs).

A GRAT is a commonly used technique to transfer the appreciation on assets to younger generations at little or no gift tax. In a typical GRAT, the grantor transfers assets to a short term trust, and retains an annuity which is equal to the value of the assets transferred. If the assets appreciate above the IRS assumed rate (currently around 3.5%), the appreciation transfers to the next generation free of gift and estate tax.

A GRAT only works if the grantor outlives the trust term, so to avoid mortality risks, GRATs are typically set up for a short term, such as 2 or 3 years.

Congress appears determined to mandate a 10-year minimum for GRATs, and the Act includes some other limitations which would reduce the effectiveness of this technique. Be sure to act quickly if you are considering a GRAT or think a GRAT may appropriate for your family.

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