



Rolling GRATs

By creating a series of GRATs, often called rolling GRATs, rather than a single long-term GRAT, a grantor can take advantage of the benefits of short-term GRATs.

EXAMPLE: Rolling GRATs work as follows: the grantor creates a GRAT for a short term, such as 2 years. The annuity payment in year 1 from the first GRAT is used to fund the second GRAT, also for a 2-year term. The annuity payments in year 2 of GRAT 1 and year 1 of GRAT 2 would be used to create the third GRAT. Annuity payments from GRAT 2 and GRAT 3 would be used to create the fourth GRAT.

Advantages of Short-Term GRATs. Short-term GRATs have the following advantages:

- The risk of death during the term of the GRAT is minimized. For example, if a grantor creates a six-year GRAT and dies in year five, the GRAT fails. If, however, the grantor creates three two-year GRATs, only the third GRAT will fail, and GRATs one and two (assuming the return on the property exceeds the IRC § 7520 rate) will have succeeded in transferring assets to the beneficiaries; and
- The risk that a year or two of poor performance during the term of the GRAT will adversely affect the overall benefit of the GRAT is minimized. The failure of one GRAT because of poor investment performance will not affect the success of the future GRATs in the series. Thus, a series of short-term GRATs may result in a larger gift to the remainder beneficiary.

Disadvantages of Short-Term GRATs. Short-term GRATs have the following disadvantages:

- The risk of the IRC § 7520 rate increasing is an issue. With a long-term GRAT, the grantor can lock in the benefits of a low IRC § 7520 rate;
- A change in the tax law may prohibit later GRATs; and
- There will be additional transaction costs in doing a series of short-term GRATs, including fees to prepare trust instruments and, possibly, the revaluation of the trust property.