



IF THERE IS INSUFFICIENT INCOME TO PAY THE ANNUITY IN ONE YEAR, CAN THE DEFICIENCY BE PAID IN ANOTHER YEAR, RATHER THAN USING PRINCIPAL?

No. The IRS regulations provide that an annuity interest is only valid if it is paid no later than the due date for the trust tax return to which it relates. Therefore, deficiencies must be made up from principal. Under current law, trust assets can be distributed in kind to pay the annuity without causing capital gains taxes to be paid on the distributed property.

IRS regulations also prohibit the Donor from loaning the GRAT funds with which to make the annuity payment.