

Private Annuities

A private annuity involves the transfer of property to a transferee in return for the transferee's unsecured promise to make periodic fixed payments to the transferor for the remainder of the transferor's life. The transferee may be an individual or a trust.

When properly set up, a private annuity eliminates estate taxes on the value of the transferred property and shifts the future appreciation of the property to the transferee, generally without any gift tax being assessed. (To avoid the gift tax, the FMV of the transferred property must equal the actuarial value of the annuity promise.)

The income tax consequences are tricky but can be mitigated when the transferee is a grantor trust as to the transferor.

Private annuities are generally used when the transferor is expected to die sooner than his or her remaining life expectancy under the IRS actuarial tables.