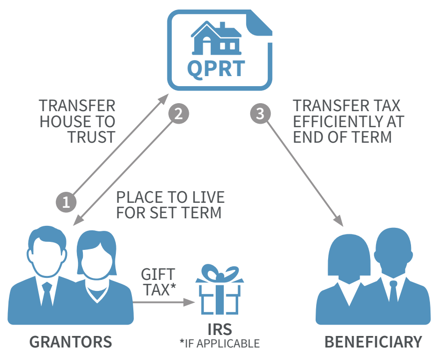
Passing on a treasured asset

With a qualified personal residence trust (QPRT), homeowners have an opportunity to bequeath their home, while continuing to live in it – for a period of time of their choosing. Even better, the property is removed from their estate upon naming it to the trust, allowing their beneficiaries to avoid or significantly reduce future federal estate and gift taxes.

THE ANATOMY OF A QUALIFIED PERSONAL RESIDENCE TRUST



A QPRT is an irrevocable trust that allows owners to transfer a home, while continuing to live in it rent free for a designated period of time. At the end of the specified term of years, the property then goes to the trust and its beneficiaries. Ideally, this happens before the grantors pass away, otherwise the property would revert back to their estate and be taxed accordingly. In the meantime, the grantors are still entitled to income tax deductions on property taxes and interest deductions on the mortgage. Keep in mind, though, that mortgage payments on property within the trust could be treated as additional gifts to your beneficiaries and taxed accordingly.

While removed from one's taxable estate, the property transfer will incur gift tax. Fortunately, however, the value of the gift is not considered to be the full fair market value because it's acknowledged that the grantors will continue to live in the home for a period of time. Instead, the gift is discounted, based on IRS tables and current interest rates.

BENEFITS OF A QUALIFIED PERSONAL RESIDENCE TRUST

Transfer ownership of your home while you continue to live in it

Remove the property, and any future appreciation, from your taxable estate

Reduce any gift tax owed

NEXT STEPS

If leaving your home to your children or other beneficiaries is something you're interested in, a QPRT can be an excellent strategy to see it through.

- Do you know where you'd like to live out your retirement? Discuss the details with your family to determine the appropriate term of years for a QPRT.
- How would the inheritance of your home affect your beneficiaries?
- Do you know the value of your property or if it's expected to appreciate or depreciate?
- Work with your advisor to see how your plans for your home fit within your comprehensive estate and financial plan.

Your advisor can help you clarify these and any other questions you have to determine if a QPRT is the right choice for you.

Your home now; theirs later

QUALIFIED PERSONAL RESIDENCE TRUSTS CAN HELP YOU TAX-EFFICIENTLY TRANSFER YOUR HOME – ON YOUR TERMS

Jack and Diane's family home had been a backdrop for many milestones and memories over the years, from birthday celebrations to graduations. As they got closer to retirement, they knew they'd be sad to part ways with it, but the five-bedroom, four-bathroom, now worth about $2 million, was simply way more space than they needed. Still, considering how much the property had risen in value since they originally purchased it, their home was a valuable asset – financially and emotionally – and they had hoped to leave it to their children if it made financial sense to do so.

Their financial advisor, John, suggested a qualified personal residence trust (QPRT), which allows them to live in the home for a set number of years before surrendering the deed. They decided 20 years should suffice. After that time, the property would pass to their children or any other beneficiary they choose. By using this strategy, Jack and Diane were able to remove the appreciated residence from their taxable estate, avoiding federal estate taxes altogether. While the transfer would incur gift tax, the home would not transfer for another 20 years, so ultimately the "present" value of the gift is considerably lower than its current market value for future tax purposes. Without the QPRT, the full value of the property – which is likely to appreciate considerably in the next 20 years – would be included in their estate when it transfers to their children, a gamble since that may push the value of their estate over the lifetime exemption limit. Ultimately, the QPRT saved their heirs 40% in potential federal estate taxes.

The pair was thrilled to have found a tax-efficient strategy for passing on the valuable property – and even more so because their home would stay in the family for generation after generation to make new memories.

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