

Estate Strategies for Consideration - Qualified Personal Residence Trust (QPRT)

The goal is to transfer the primary residence of the grantor to beneficiaries at a discounted value. The grantor may continue to live in the residence (“retained interest”). The residence is transferred to the grantor’s beneficiaries (“remainder interest”) at the grantor’s death or at the end of the trust’s term. The transfer of property to a QPRT is a taxable gift, and the value of the gift is based on the present value of the property at the end of trust term. The longer the term of the trust, the higher the discount. QPRTs are ideal during high interest rate periods since the federal interest rate is one of the main drivers for the gift’s value.

Benefits

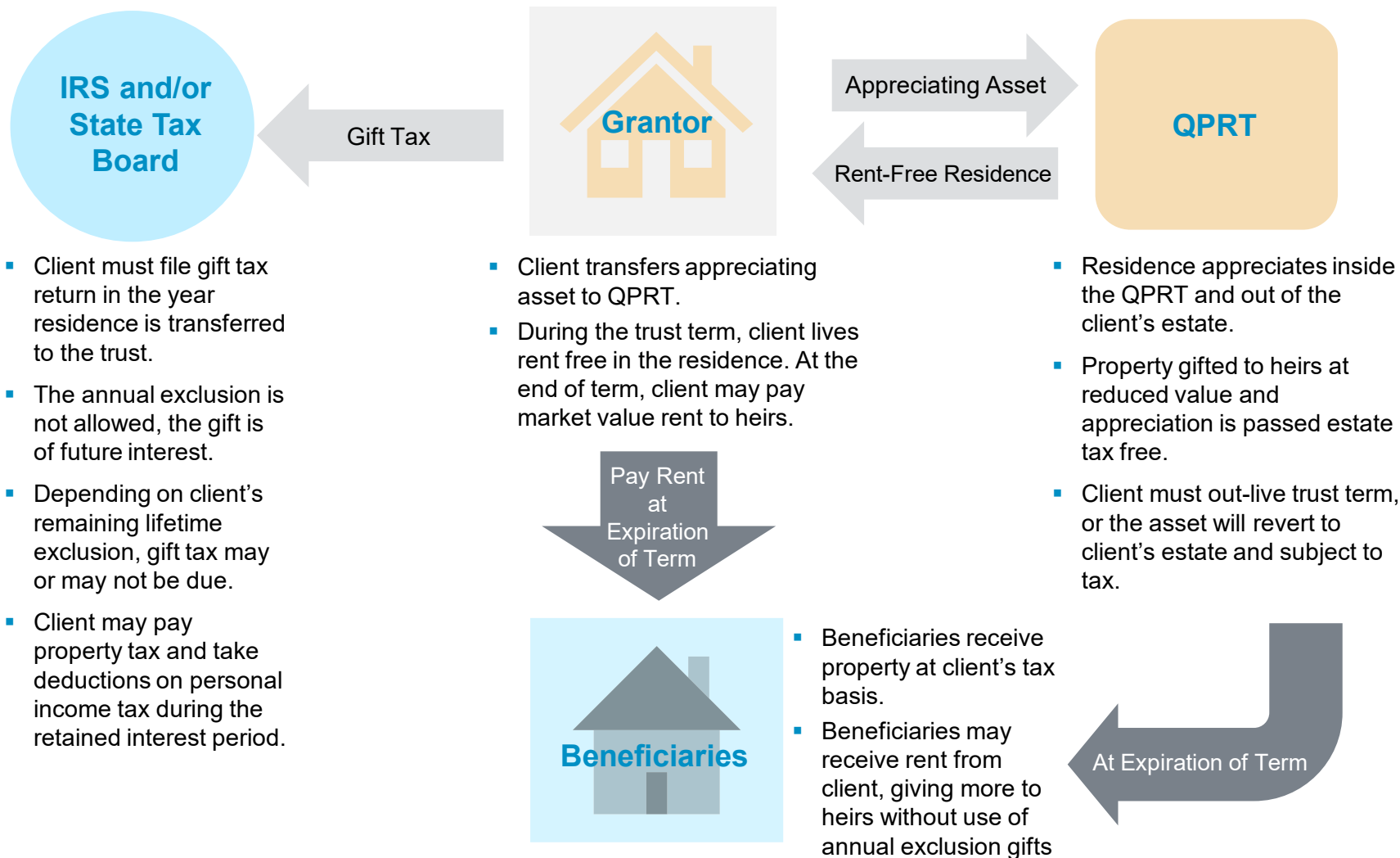
- The residence is passed to heirs at a reduced value resulting in a lower taxable gift.
- Appreciation of the residence during the term is ‘out of the estate’ and free of gift and estate taxes.
- Higher interest rate environment offers potential for lower gift value and gift tax.
- The QPRT offers asset protection from creditors since the grantor no longer owns the property.

Risks

- If the grantor dies before the end of the trust’s term the property is included in the estate and is subject to tax.
- Grantor cedes control after term of the trust and may pay rent to heirs. Payments are considered income, not gifts.
- Mortgage payments on the residence will be considered gifts when the property is transferred to QPRT.
- When the home is transferred to the trust, new mortgages or using the home as collateral is disallowed.
- When the trust term expires, the property will be reassessed, and any property tax benefits associated with owning and occupying the property as primary residence will be lost by the grantor.*
- The grantor’s tax basis will transfer to the beneficiaries. The estate tax benefit of setting up the trust must outweigh the tax consequences of losing the step-up in basis for beneficiaries.

** CA: Tax benefit of Proposition 13 will not be lost when residence is transferred to children through the medium of the trust. Property will not be reassessed for tax when property is moved to the QPRT so long as the Settlor retains the right to use and occupy the residence.*

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