

Qualified Personal Residence Trusts

In many parts of the country, residential property has seen steady and strong appreciation for some time now. In an estate planning context, however, increasing property values could mean a potential increase in federal estate tax liability for the property owner's estate. Many homeowners, who desire to pass their appreciating residential property on to their children and save federal estate and gift taxes at the same time, have utilized qualified personal residence trusts.

What is a QPRT?

The qualified personal residence trust, referred to as a "QPRT," is an estate planning technique used to transfer a personal residence from one generation to the next without incurring federal estate tax on the trust property. This type of irrevocable trust allows a homeowner to make a future gift of the family home or a vacation property to his or her children, while retaining the right to continue living in the home for a term of years that the homeowner selects.

Creating a QPRT

The homeowner transfers title to his or her residence into trust for a set time period (for example, 10 years), but retains the right to live in the house during the trust term. At the end of the term, the trust property is distributed to the donor's children without passing through the donor's estate, thereby avoiding federal estate tax on the trust assets. However, if the donor wishes to continue living in the residence after the end of the trust term, the donor must pay fair market rent to his or her children, the new owners of the residence.

Gift tax advantage

Through the use of a QPRT, the full value of your residence can be transferred to your children. However, for federal gift tax purposes, the property is valued at a discount. The actual value of the gift (and the gift tax savings) depends upon your age, the length of the QPRT term, and the federal interest rates in effect at the time you transfer the house to the trust. For example, the longer the trust term, the lower the gift value for gift tax purposes and the greater the gift tax savings. Also, the higher the applicable federal interest rate, the greater the potential gift tax savings.

If you would like to discuss how a QPRT might work for you as part of your overall estate plan, or if you currently have an established QPRT and you wish to review its effect in light of current interest rates and other factors, please do not hesitate to contact this office.