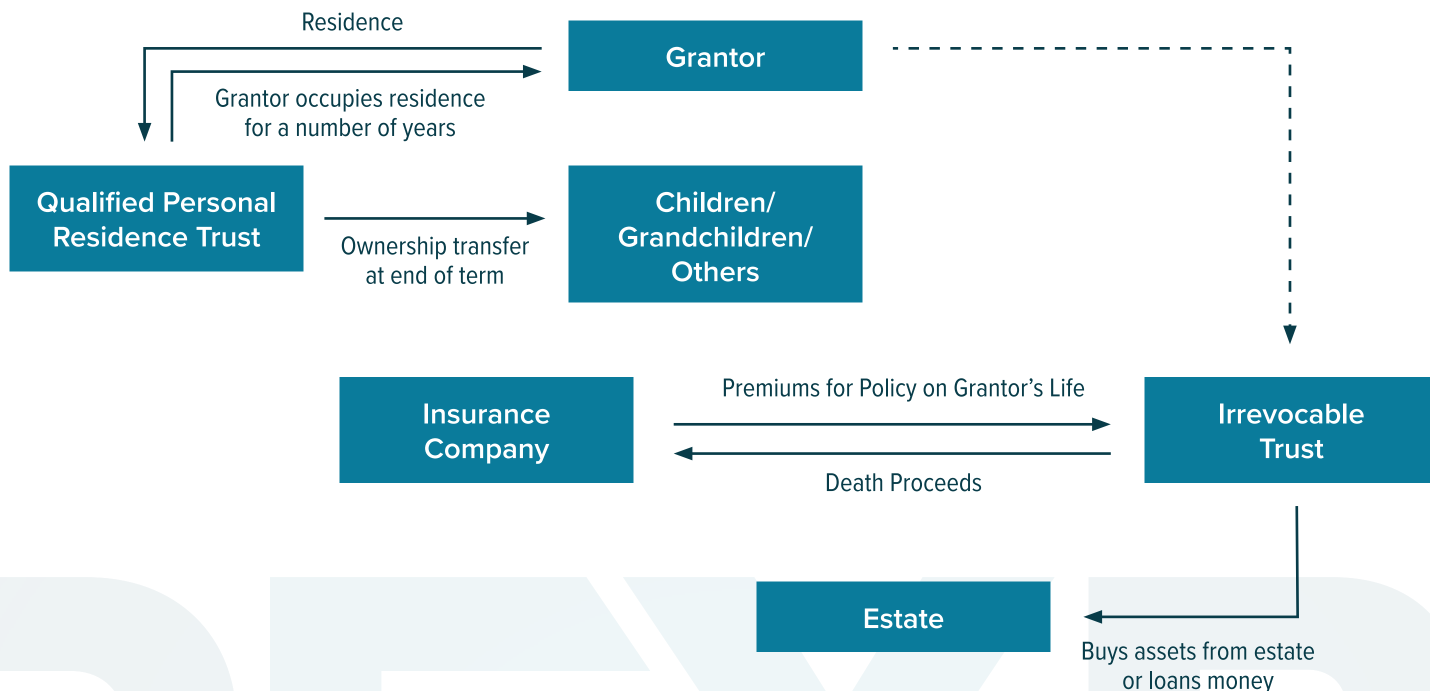
QUALIFIED PERSONAL RESIDENCE TRUST

A Qualified Personal Residence Trust (QPRT) is a trust in which a personal residence or vacation home is the asset. There must be a separate trust for each personal residence with no more than two trusts.

The grantor of the trust continues to use and occupy the residence for the period of years specified in the trust. At the end of that period, the property passes to the trust beneficiaries. If the grantor of the trust wishes to continue to live in the residence beyond the term stated in the trust, he or she must lease the property back from the remainder beneficiaries for fair market value rent.

Since the beneficiaries do not receive the gift until the end of the income period, the value of the gift is reduced to reflect the interest in the residence that has been retained by the grantor. The longer the holding period, the greater the retained interest and the lower the value of the taxable gift. However, the grantor must outlive the specified period in order to exclude the residence from the taxable estate. To replace the shrinkage resulting from potential estate taxes in the event of early death, an Irrevocable Life Insurance Trust generally applies for a life insurance policy on the grantor.

How it works:



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Continued

Advantages

- The value of the gift is reduced by waiting for actual transfer for a number of years. The longer the wait, the lower the value of the gift
- The grantor gets use of the property during the term period typically with the thought that the residence will not be needed after the term period has expired
- Since the valuation of the remainder interest is valued at the time the trust is created and the transfer of the resi-dence to the trust takes place, any extraordinary future appreciation of the property is never reflected in the gift as long as the grantor survives the income period and the beneficiaries get the residence.

Other Considerations

- Since this is a gift of a remainder interest gift, it will be a “future interest” gift and will not qualify for the annual gift tax exclusion. The value of the remainder interest will reduce the gift and estate tax lifetime exclusions
- If the transferor does not outlive the term period, the value of the residence will be brought back into his/her estate using the date-of-death value of the property just as if the trust transaction had never taken place. The gift tax amount used for the transaction will be restored as if the gift had never taken place if this happens
- If the transferor does outlive the term, the recipients of the residence will take on the basis of the transferor. There will be no “step-up” in basis such as occurs at death when the transferor retains property until death
- Generally the trust will be a grantor trust which treats the grantor as owner for income tax purposes but not for estate tax purposes. That allows the grantor to deduct any mortgage interest and property tax payments made by the trustee
- If the grantor wants to reside in the residence after the end of the term period, it is most important that there be a formal written lease and that rent be charged at fair market value with periodic adjustments if the market dic-tates. Otherwise, the value of the residence will be included in the grantor’s estate at death

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