

# Qualified Personal Residence Trust

## WHAT IS A QUALIFIED PERSONAL RESIDENCE TRUST (QPRT)?

- ▶ A QPRT is a trust arrangement in which the grantor, usually a senior family member, gifts their residence (or second home) to beneficiaries, often children or grandchildren, but retains the right to occupy the home for a specified number of years known as the QPRT term.
  - If the grantor survives the QPRT term, the residence is not included in the grantor's estate. If the grantor does not survive the QPRT term, the value of the residence is included in the grantor's estate.
- ▶ A reasonable amount of adjacent land and appurtenant structures, excluding personal property, may be included in the QPRT.
- ▶ During the trust term, the grantor is generally required to pay all of the property taxes, insurance, and general maintenance of the residence.
- ▶ A life estate in the residence may be given to the grantor's spouse without increasing the transfer tax costs of establishing a QPRT.
- ▶ The grantor may be able to continue to occupy the residence after the trust term expires but must pay a fair market value rent. Paying rent may provide the grantor with additional transfer tax savings.
- ▶ The grantor must obtain an appraisal of the residence at the time it is transferred to the QPRT.
  - The value of the grantor's retained interest in the residence decreases the value of the gift.
- ▶ If the grantor does not survive the QPRT term and the value of the residence is included in the grantor's estate, the residence itself is also put back into the estate.

## WHAT ARE THE BENEFITS OF A QPRT?

- ▶ A QPRT allows the grantor to transfer a residence to their children at a reduced transfer tax cost – which may result in significant tax savings.
- ▶ Provided the grantor outlives the term of the trust, the value of the residence will be removed from the grantor's estate.
- ▶ Any future appreciation in the residence after the QPRT is established is transferred to children without being subject to additional transfer tax.

## WHAT ARE THE DISADVANTAGES OF A QPRT?

- ▶ Because the residence is removed from the estate before death, there is no step-up in basis available.
- ▶ If the grantor dies prior to the expiration of the QPRT term, the appreciated value of residence is brought back into the grantor's estate.

