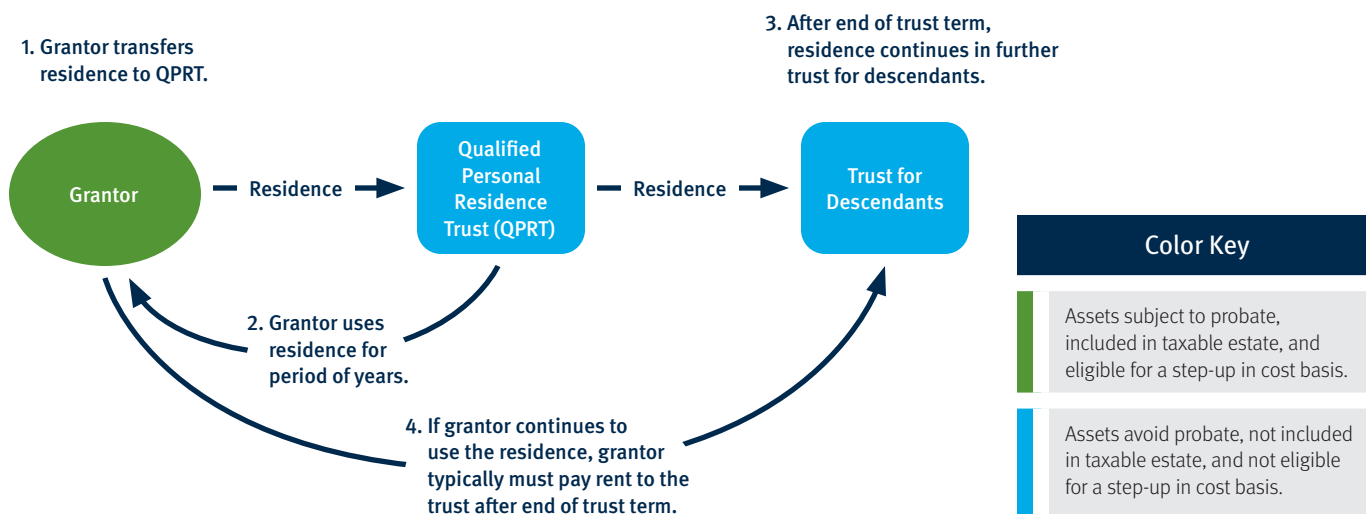


Reducing Estate Tax Exposure With a Qualified Personal Residence Trust

Wealth Planning | Estate and Tax Planning

A QPRT is a powerful estate tax planning strategy that may remove future appreciation on a primary or secondary residence from an individual's estate. A primer on QPRTs is provided below.



Irrevocable Trust

A QPRT is an irrevocable trust to which the grantor (creator of the trust) transfers a personal residence in exchange for the right to use the residence for a term of years.

Property Eligible for Transfer to QPRT

An individual can transfer a primary or secondary residence to a QPRT. However, in order for a secondary residence to be transferred to a QPRT, it must be utilized for personal use the greater of (i) 14 days each year or (ii) 10% of the number of days per year the property is rented to a third party. A QPRT cannot own more than one property, and an individual is only allowed to have two QPRTs at any given time. In addition to the residence, the trust may only hold a minimal amount of cash for certain expenses related to the residence.

Use of the Property

During the trust term, the grantor retains the right to use the residence rent-free. If the grantor continues to use the residence after the trust term, he or she must pay rent to the beneficiary of the QPRT. These rental payments can help a grantor further reduce the value of his or her estate. If the grantor fails to pay rent, there may be unintended estate and gift tax consequences.

Payment of Ordinary Expenses

During the trust term, the grantor is responsible for all ordinary expenses associated with the residence, including upkeep, maintenance, repairs, real estate taxes, and insurance. After the end of the trust term, the beneficiary typically becomes responsible for such expenses.

Gift Tax Implications

The grantor uses a portion of his or her federal estate and gift tax exemption when transferring property to the trust. As such, the grantor must file a gift tax return (Form 709), though tax is usually not owed. The value of the gift is generally less than the fair market value of the property at the time the residence is transferred to the QPRT because the IRS accounts for the grantor's retained interest in the property.

Estate Tax Savings

If the grantor outlives the term of the QPRT, the residence (including all appreciation that occurred after transfer to the trust) passes to the beneficiaries and is no longer part of the grantor's estate.

Grantor Must Outlive Trust Term

If the grantor dies during the trust term, the residence will be included in his or her estate and administered according to the terms of the trust.

Sale of Residence During Trust Term

If the residence is sold during the term of the QPRT, the proceeds must be used to purchase a suitable replacement residence within two years. Failure to comply with this two-year rule will result in the trust failing to qualify as a QPRT. If this occurs, the trust must be converted into a Grantor Retained Annuity Trust (GRAT) or all trust assets must be returned to the grantor. For more information on GRATs, please ask your Stifel Financial Advisor for a copy of the article entitled *Reducing Estate Tax Exposure With a Grantor Retained Annuity Trust*.

Beneficiaries

Upon expiration of the QPRT term, trust assets pass to the beneficiaries named in the trust. The beneficiaries can be individuals or a further trust (or trusts) for their benefit.

Creditor Protection

QPRT assets are generally protected from creditors of the grantor and beneficiaries.

Income Tax Considerations

The grantor is recognized as the owner of the QPRT assets for income tax purposes. As a result, income and deductions associated with the residence are attributable to the grantor.

For more information about QPRTs, contact your local attorney and Stifel Financial Advisor.

Stifel does not provide legal or tax advice. You should consult with your legal and tax advisors regarding your particular situation.