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Qualified Personal Residence Trusts (“QPRT”)

The Qualified Personal Residence Trust, or “QPRT,” is a trust arrangement which enables one to make a gift of a residence or vacation home to heirs on terms that are normally quite favorable from a tax perspective. Simply described, the grantor creates an irrevocable trust and executes a deed of gift placing the residence into the trust, which provides that he or she will continue to live in the residence, rent-free, for a certain number of years. At the expiration of the term of years, the title to the property is distributed by the trustee to the beneficiaries.

For tax reporting purposes, the value of the residence when transferred into trust is the fair market value (determined by an appraisal), less the present value of the use of the property for the trust term. If the grantor outlives the rent-free period, then the value of the residence will be excluded from the taxable estate. While some parents object to the requirement that the grantor must move out or pay a fair market value rent to the beneficiaries (typically, the children) upon expiration of the rent-free period, the tax savings normally quell those concerns. In addition, if the grantor dies before expiration of the rent-free period, some portion of the value of the home will be included in his or her estate (but no worse result than if the QPRT had not been implemented).

For example, if a 65 year-old parent transfers a home with an appraised value of \$1 million into a trust, reserving the right to reside there without payment of rent for the next 15 years of the QPRT, the gift tax value of the residence would be \$284,820. This figure would be reported to the IRS as a gift, but there would be no tax due if the grantor still had his exemption of \$1 million available. At the expiration of the trust term, the value of the home (assuming a 5% appreciation rate) would be \$2,078,928 in the hands of the children, with a projected estate tax savings of \$807,349.

The personal residence trust arrangement enables families to avoid taxation on a significant gift, while reserving the right of the donor to reside in the home for a period of years by simply applying the tax tables to achieve a reduced value of the residence. In addition, this arrangement may be especially desirable during a period of rapid appreciation in home prices, as it allows appreciation subsequent to the transfer into the QPRT to avoid estate and gift tax as well. There are additional options and issues for consideration before clients implement these trust strategies, which can and would be addressed by an experienced estate planning attorney.

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