How a QPRT Can Benefit You

A house may start out as a young couple's tax deduction, but time and other factors can turn it into an estate tax burden. And the tax is magnified if you own more than one home. Your homes' combined values can represent a substantial portion of your estate and thus of your eventual estate tax.

Advantages of a QPRT

How can you minimize your tax burden and efficiently transfer property while continuing to live in your home or homes? One way is to establish a qualified personal residence trust (QPRT). This allows you to remove one or more homes from your estate without disrupting your continued use. A QPRT works best with unmortgaged properties, but you can arrange to provide for mortgage payments outside the QPRT.

A QPRT is particularly useful in a strong real estate market because it can:

1. Remove the property's present value from your taxable estate, and
2. Exclude future increases in property value from your estate.

Here's how it works. You transfer ownership of your personal residence or residences into a trust, retaining the right to live there for a specified time, usually 10 or more years. At the end of that period, title to the property passes to the trust beneficiary.

For example, let's say that your home is worth $500,000. You transfer its title into a trust, retaining the right to live there for 10 years. The gift value of $500,000 is reduced by the value of your right to live there for 10 years. This could amount to more than half the overall value. The longer the period of residence, the greater the savings.

Disadvantages of a QPRT

Here are some of the drawbacks to QPRTs:

- The trust agreement must bar selling the home back to you (or your spouse or an entity you or your spouse control) during the term of the trust and after the term ends.
- If you do not survive the retained residential period, the property remains in your estate, erasing all tax benefits.
- Transfer of your estate could be affected by some state laws that require reappraisals of real estate. But many states exempt transfer of property from parent to child if the child is the trust beneficiary.

Give Your Home to a Charity

You can also use a QPRT to give your home to a charitable organization or an educational institution. Colleges in particular solicit property contributions from wealthy alumni who own many homes. You name the charitable institution as trust beneficiary. It accepts transfer of the property at the end of the specified residential period. The institution may retain the property if located near the campus, but usually sells it. You can deduct as a charitable deduction the property's value on the transfer date minus the value of the right to continue to use the property for the specified time.

An additional advantage of giving your home to a charitable institution such as a college is that you may be able to deduct, as charitable gifts to the institution, your maintenance and operating expenses while you live there. Also, the institution may give you some special recognition or let you specify some use of the funds. For example, the value of the property at transfer could become the basis of funds for a campus development or a scholarship fund named after you.

Worth Considering

Please contact us for more information on how to create a QPRT or give property to a charity. We can also provide information on state trust law requirements. Our professionals will be happy to help you.