

QUALIFIED PERSONAL RESIDENCE TRUST

PERTINENT INFORMATION

- ❑ Mrs. Kugler (age 60) owns a residence with fair market value of \$1,000,000 and no mortgage.

GOALS AND OBJECTIVES

- ❑ Mrs. Kugler is very concerned about shrinkage of the estate at death due to estate tax.
- ❑ She is willing to consider a future interest gift, but is reluctant to make a large current gift.

PROPOSED ARRANGEMENT

- ❑ Consider a future interest gift of the residence via Qualified Personal Residence Trust.
- ❑ The Trust allows a considerably larger gift than actually reported for gift tax purposes.
- ❑ Assume a 15 year trust and 8% IRC Section 7520 Rate.
- ❑ Mrs. K retains the use and enjoyment of residence for the 15 year Trust period.
- ❑ Trust will contain a provision that will allow the residence to revert back to Mrs. K's estate if she does not survive Trust term (will then pass to Mr. K via marital deduction).

TAXABLE GIFT CALCULATION

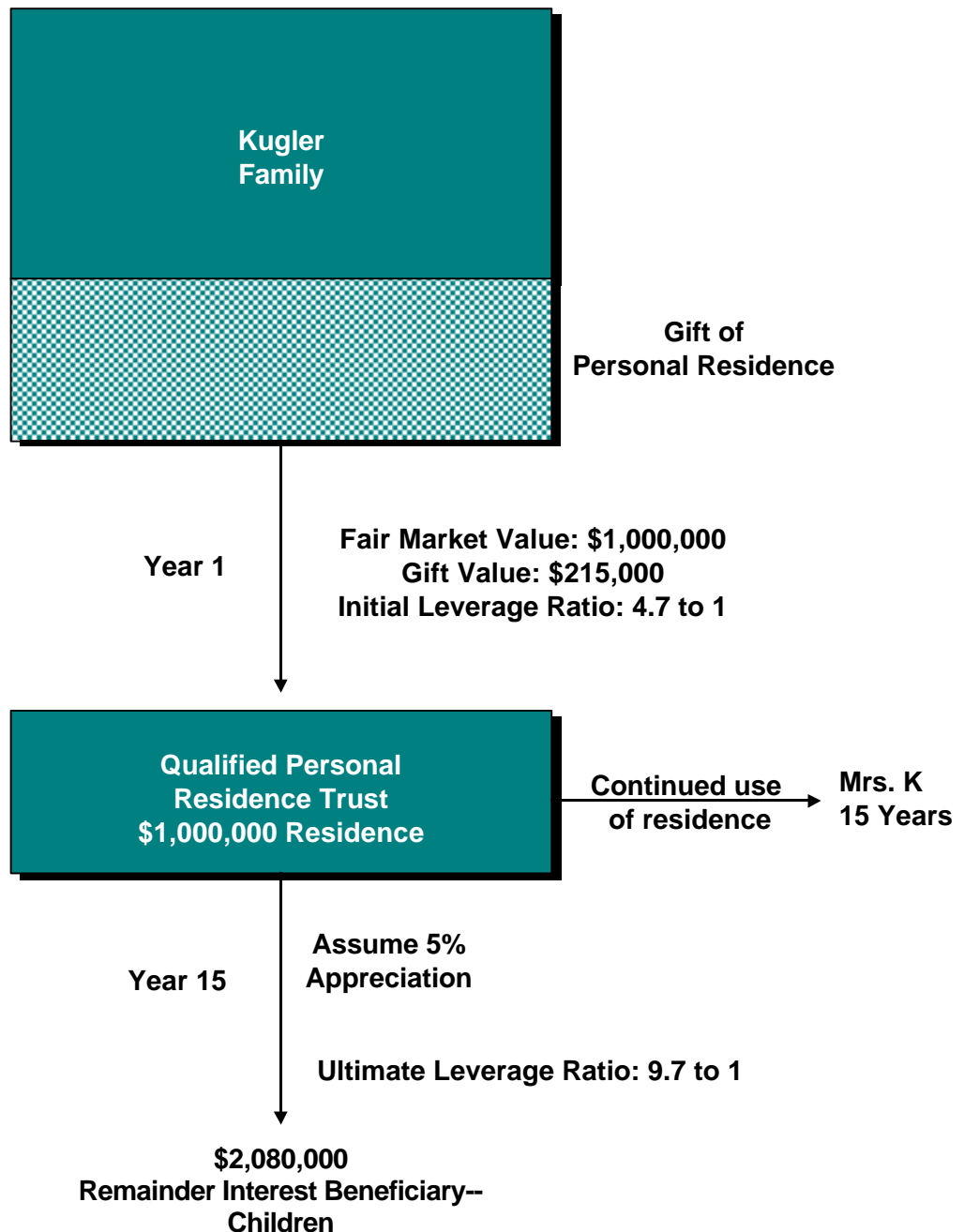
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|-------------|-------------------------|--|
| | \$685,000 | Present value of Grantor's retained income interest |
| | 315,000 | Present value of remainder interest |
| | <u>(100,000)</u> | Less discount for reversionary interest (probability of death age 60 to age 75) |
| Gift | <u>\$215,000</u> | Present value of remainder interest (note: present value of retained income interest increases to \$785,000) |

RESULTS AND BENEFITS

- ❑ Mrs. K reported a gift of just \$215,000 (actuarial value of the remainder interest) and in 15 years will have removed \$2,080,000 from her estate (assume 5% appreciation for duration of trust).
- ❑ If Mrs. K does survive 15 year period, residence would then be owned by the children. Thus, Mrs. K must then pay reasonable rent to the children for use of residence.
- ❑ Rental payments, in effect, result in further estate reduction without gift tax considerations.
- ❑ If Mrs. K does not survive 15 year period, residence reverts back to her estate. The \$215,000 gift amount is then restored. Thus, there is no loss of Applicable Exclusion Gift Amount.
- ❑ If Mrs. K survives the Trust term, the children will take the residence with her income tax basis.
- ❑ Note: the trust document must provide that Mr. or Mrs. K cannot buy the residence during the trust term.

QUALIFIED PERSONAL RESIDENCE TRUST

The Grantor transfers the residence to an Irrevocable Trust for a stated period of years. The Grantor retains the use of the residence for the Trust period, and residence then passes to the remainder beneficiary (Grantor's children).



Note: if desired, the Grantor (Mrs. K) could provide the spouse with a life estate in the residence after the 15 year period ends. The Gift Tax calculation would not change.

Note: there is a possible GST Tax if a child dies during the term of the Trust since the Pre-Deceased Child Rule is not applicable (child was alive when the Trust was established).