Estate Planning *Fast* Faxts

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Estate, Tax and Family Wealth Preservation Planning For Advisors

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Give Your House To Your Kids!
Save Taxes With a QPRT

If your clients are concerned about estate taxes gutting their estate and eating up their children's inheritance, there may be a way for them to have their cake and eat it too.

Tell your client this: You can transfer your house to your children (or another beneficiary) in a tax-approved way with the following benefits...

☞ You can continue to live in the house for a long as you want.

☞ The transfer tax costs are greatly reduced if you transfer the house now rather than leave it to your children later.

The way to achieve these objectives is with a Qualified Personal Residence Trust (known in the planning biz as a QPRT).

What Is A QPRT?

A QPRT is an IRS-endorsed trust in which the only asset is your principal residence or vacation home.

The trust is created to last for a term of years. The term of the trust should be long enough to reduce the value of the gift but short enough so that you expect to outlive the term. During the trust's term, you continue to live in the home and are treated as the owner. At the end of the term, the home becomes the property of the beneficiaries you named, typically your children or a trust for the benefit of your children. At that point, if you want to continue living in the home, you can pay your beneficiary (the new owner) fair market rent. Not a bad idea since every monthly rental payment you make to your beneficiary is removed forever from your taxable estate and ends up with your intended beneficiary.

When the trust is created, you are treated as making a gift of the value of the *remainder interest* in the home to your beneficiary. The value of that gift is the value of the home *minus* the value of the interest you've kept (the right to live in it for a certain number of years). The value of your *retained interest* is calculated using special IRS tables. Another way of looking at it is that the value of the gift to your children—or other beneficiaries—is reduced (or "discounted") because they have to wait for the trust term to expire before the gift to them is completed.

Example: If you are 55, and your home is worth \$500,000 and a 6.2% interest rate is used, the value of the gift is only \$156,675 for a 15-year trust term. You are giving away a \$500,000 asset for a gift "cost" of only \$156,675! Considering the probable dramatic increase in the value of the home by the end of the trust term, you will have actually gifted away an asset worth (e.g. at 5% annual appreciation) \$1,039,464 at an incredibly discounted gift cost.

"Why must we always take the same two weeks as Alan Greenspan?"

Gift tax on the gift can be offset by your applicable exclusion amount (\$675,000, if you haven't used up any of it)--so there is likely to be no out-of-pocket tax cost to you.

Impact of the QPRT

If you die before the trust term expires, your house is included in your estate and you are no worse off than if no transfer had been made. *Heads you win; tails you tie*. If you outlive the trust term, your children will own the home at a very low, nicely "leveraged", transfer tax cost.

QPRTs are a powerful estate planning technique which must meet strict requirements. Have your client consult a knowledgeable estate planning attorney. We would be happy to provide assistance and in the process help you reinforce your relationship with your clients.

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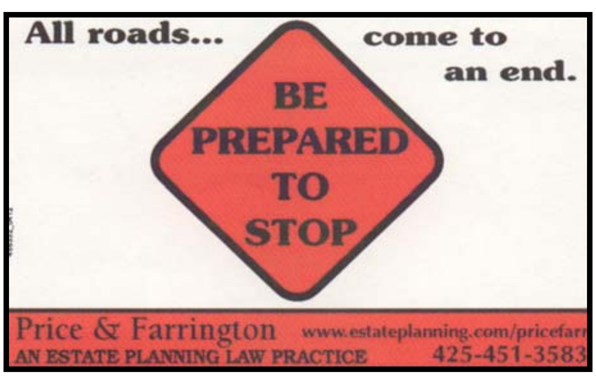
☞ Contact our office if you would like to receive a copy of our free report: **"Estate Planning Tools & Tips: Qualified Personal Residence Trusts."**



Log onto our *Estate Planning Learning Center* web site at: www.estateplanning.com/pricefarr.

Quotes for February:

"One difference between death and taxes is that death is frequently painless."

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"Death, taxes and childbirth. There's never a convenient time for any of them."

Comprehensive Estate Planning Services are Provided by
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