

## QUALIFIED PERSONAL RESIDENCE TRUSTS

A Qualified Personal Residence Trust (QPRT) is an irrevocable trust to which the Grantor transfers his or her personal residence or vacation home. The Grantor retains the exclusive use of the residence for a term of years specified in the trust instrument. The trust usually requires the residence to be returned to the Grantor's estate if the Grantor dies prior to expiration of the term of the trust. If the Grantor survives the term of the trust, the QPRT terminates and the residence is either retained in further trust for or distributed outright to one or more third parties selected by the Grantor, such as the Grantor's children or grandchildren. The Grantor will then have the option of paying fair rent for his continued use of the residence.

The transfer of the residence or vacation home to the QPRT is a taxable gift by the Grantor to the remainder beneficiaries. The amount of the gift is determined by reference to the IRS actuarial tables. The actual amount of the gift is a function of the Grantor's age, the value of the residence or vacation home, and the term of the trust selected by the Grantor. The gift is generally less than 50% of the current value of the residence. If the Grantor survives the term of the QPRT, no further gift or estate tax will be imposed upon the residence after the initial gift.

During the term of the Grantor's retained interest, the Grantor has the right to sell the residence and purchase a replacement residence. If the Grantor does not purchase a new residence within two years, the QPRT must pay the Grantor an annuity for the balance of the trust term. The amount of the annuity is based on IRS tables.

If the Grantor dies prior to the expiration of the selected term of years, the residence will be included in the Grantor's estate for federal estate tax purposes, just as if the Grantor had never transferred it to the QPRT. Any gift tax credit that was applied against the gift tax when the property was transferred to the QPRT will be restored and any federal gift taxes actually paid will be credited dollar for dollar against the Grantor's estate tax liability.