**Tax Tips**

**Qualified Personal Residence Trusts**

A special kind of irrevocable trust can be used to transfer your residence to your children at a significantly reduced gift tax cost and with no estate tax, yet allow you to continue to live in the residence for as long as you wish. This special type of trust is known as a qualified personal residence trust (QPRT). (QPRTs are sometimes also referred to as “residence GRITs” or “house GRITs”.) Here's how it works.

During your lifetime, you transfer your residence to the trustee, who (if state law permits) can be yourself. The trustee must allow you to continue to use the residence rent-free for a fixed number of years specified in the trust instrument (the “fixed term”), which should be a term you are likely to survive. During the fixed term, you will continue to pay mortgage expenses, real estate taxes, insurance, and expenses for maintenance and repairs, and will continue to deduct mortgage interest and real estate taxes on your individual income tax return. When the fixed term ends, the residence is distributed to your children, or remains in further trust for them.

Even after the fixed term ends, you can continue to use the residence in one of two ways. First, rather than immediately distributing the residence to your children, the residence can be retained in trust for your spouse's lifetime, thus assuring that the residence is available to you. Second, you can enter into a lease with your children which will allow you to live in the residence for as long as you wish. (If you do so, however, you must pay fair market value rent to your children after the fixed term ends in order to keep the residence from being subject to estate tax on your death.)

Although your transfer of the residence to the trust is a taxable gift, you are allowed to subtract, from the fair market value of the residence, the value of your right to live rent-free in the residence for the fixed term. Thus, the amount of the taxable gift will usually be substantially less than the fair market value of the residence. If the amount of the gift is less than your available exclusion from the gift tax ($5,490,000 in 2017, reduced by amounts allowed for gifts in previous years), no gift tax will be due as a result of your gift to the trust.

If you survive the fixed term of the QPRT, the value of the residence will not be included in your estate for estate tax purposes. Even if you don't survive the fixed term, the estate tax consequences will be no worse than they would have been if you hadn't created the trust in the first place.

A QPRT is an effective way to remove a residence's value from your estate at a greatly reduced gift tax cost

If you have any questions regarding the above discussed topic or any other tax matter, please feel free to give me a call at (562) 698-9891.

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