



IS A QUALIFIED PERSONAL RESIDENCE TRUST THE RIGHT SOLUTION FOR YOU?

At Life By Design Investment Advisory Services, we believe estate planning is about more than just reducing taxes—it's about preserving your legacy and ensuring your life's work benefits the people and causes that matter most to you. For individuals with significant assets, one strategy that can help achieve these goals is the Qualified Personal Residence Trust (QPRT), which allows you to transfer a primary or vacation home to your heirs at a reduced tax cost while maintaining the right to live in the property for a set period.

By integrating a QPRT into your overall estate plan, you can efficiently reduce your taxable estate, potentially saving your heirs a significant amount in estate taxes, while still enjoying your home during your lifetime.

How a QPRT Works

A QPRT is a specialized trust designed to transfer ownership of your home to your beneficiaries (often your children), but with a key difference—you retain the right to live in the home for a specified number of years. Here's how it works:

- **Establishing the Trust:** You, the homeowner, transfer your residence into the QPRT for a set period. During this time, you can continue living in the home, rent-free, just as you do now.
- **Gift Tax Savings:** Transferring your home to a QPRT counts as a gift to your beneficiaries. However, because you keep the right to live in the home for a while, the taxable value of the gift is lower than the home's current market value. This discount can result in significantly lower gift taxes.
- **At the End of the Term:** If you outlive the QPRT term, the home passes to your beneficiaries free of additional estate taxes, regardless of how much the property has appreciated. Should you wish to remain in the home, you can pay fair market rent to the trust, which further reduces your taxable estate.
- **If the Term is Not Survived:** If you pass away before the end of the QPRT term, the home will be included in your estate, and the tax benefits of the QPRT are lost. However, you won't be worse off than if the trust hadn't been created.

Why a QPRT is Gaining Importance with Upcoming Tax Law Changes

With potential changes to estate tax laws on the horizon—specifically, the reduction of the lifetime gift and estate tax exemption in 2025—strategies like QPRTs are becoming more relevant for individuals looking to protect their estates. Here's how a QPRT can help you stay ahead of these changes:

- **Locking in Current Exemption Levels:** By transferring your home into a QPRT now, you can take advantage of today's higher exemption levels. The gift value of the home is reduced because you retain the right to live there, allowing you to transfer more wealth without exceeding your lifetime exemption.

- **Freezing the Estate Value:** A QPRT essentially freezes the value of your home for gift tax purposes at the time the trust is established. Any future appreciation in the property's value happens outside of your taxable estate, potentially saving your heirs from paying estate taxes on the home's appreciated value.
- **Leveraging the Rental Arrangement:** If you continue living in the home after the QPRT term expires, paying rent to the beneficiaries offers an additional benefit. These rental payments transfer even more of your estate to your heirs, reducing the taxable portion of your estate without triggering additional gift taxes.

Flexibility and Control in Estate Planning

QPRTs provide a proactive solution to estate planning in an uncertain tax environment. They allow you to take advantage of today's favorable tax laws while maintaining the use of your home. Here's why a QPRT offers both flexibility and control:

- **Continued Use of Your Property:** You retain the right to live in your home for the trust's term, ensuring minimal disruption to your lifestyle. After the term, you can continue living there by paying rent, which further reduces your taxable estate while providing income to your heirs.
- **Adapting to Uncertainty:** With tax laws subject to change, a QPRT allows you to lock in today's benefits while still giving you flexibility. You retain control over your home and your estate, even as laws and exemption amounts shift.

Important Considerations

A QPRT can be a valuable part of your estate plan, but it requires careful consideration:

- **Surviving the Trust Term:** The effectiveness of a QPRT depends on outliving the trust term. If you pass away before the term ends, the property will be included in your estate, eliminating the tax benefits.
- **Interest Rates Matter:** The effectiveness of a QPRT can also be influenced by current interest rates. Lower interest rates increase the discount applied to the gift's value, enhancing the estate tax benefits.

Is a QPRT Right for You?

At Life By Design Investment Advisory Services, we understand that estate planning is deeply personal and must align with your life's goals. A QPRT may be a beneficial tool for minimizing estate taxes and preserving your wealth for future generations, but it's essential to ensure it fits within your broader estate planning strategy.

If you're considering a QPRT or want to explore other estate planning tools, we invite you to connect with us.

Our team is dedicated to crafting a financial plan that reflects your unique vision for the future, helping you live your life by design—not by default. Contact us today to begin the conversation about securing your legacy.

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