Qualified Personal Residence Trust

Prepared for: Sample

Prepared by: Brentmark

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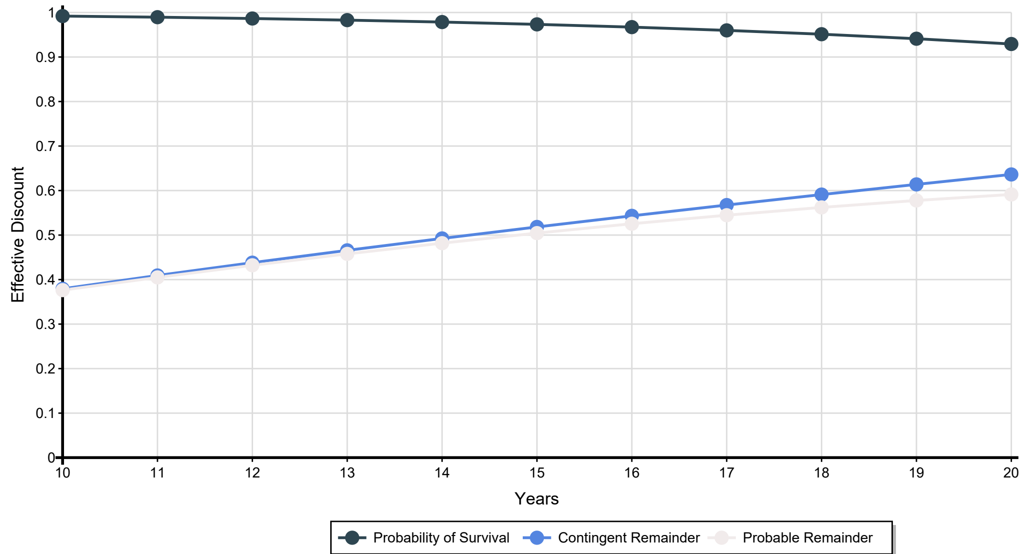
Qualified Personal Residence Trust

Transfer Date:	11/2022
§7520 Rate:	4.80%
Principal:	$750,000
Lives:	2
Ages:	55, 57
Term of Trust:	15
After-Tax Growth:	4.68%
Total Death Tax Bracket:	40.00%
With Reversion:	Yes
Mortality Table:	2010CM

Results

Grantor's Age When Trust Term Ends:	70
Value of Nontaxable Interest Retained by Grantor:	$388,673
Taxable Gift (Present Value of Remainder Interest):	$361,327
Property Value After 15 Years:	$1,489,419
Potential Death Tax Savings: (Combined Bracket X [Value of Property - Taxable Gift])	$451,237
Qualified Annuity that Must be Paid Annually if Entire Trust Ceases to be a QPRT:	$37,147

	Reversion	Total Income Interest	Income Interest with Reversion	Remainder
Factor:	0.01600	0.50223	0.51823	0.48177
Value:	$12,000	$376,673	$388,673	$361,328



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Term of Trust	Age of Grantor at Termination	Taxable Gift
10	65	$465,510
11	66	$443,092
12	67	$421,522
13	68	$400,740
14	69	$380,692
15	70	$361,327
16	71	$342,600
17	72	$324,435
18	73	$306,795
19	74	$289,627
20	75	$272,872

This scenario is a hypothetical illustration based on the assumptions you entered via the inputs inside the program. It is to be used solely as a conceptual guide to understand and quantify your planning needs. It would be wise to consider this illustration together with all other information you deem necessary in making your investment decisions. This illustration is not a guarantee of the performance of any specific investment. Actual performance from your investments and assets may vary. This illustration is not legal or tax advice. You should consult with your attorney and accountant to review this information and determine its appropriateness for your particular situation. The provider of this illustration provides no guarantee and assumes no responsibility or liability for the accuracy of the information provided (including whether the interest rate you have selected is in fact "reasonable") or for your reliance based on this information.

Qualified Personal Residence Trust

You create an irrevocable trust. You direct the trustee to pay you the income from the trust for a specified number of years or allow you possession of the trust's property. When your interest terminates at the end of the years you've selected, the property in the trust is distributed to family members or the other individuals you have chosen. In some cases, the trust continues for their benefit.

When you put cash or assets into the trust, you made what is called a "future interest" gift. The value of that gift is the excess of the value of the property you transferred over the value of the interest you kept. The value of your retained interest is found by multiplying the principal by the present value of an annuity factor for the number of years the trust will run.

For example, assuming a 7.6% federal discount rate, and using Table 2010CM, if the trust will run for ten years and $100,000 is initially placed into the trust subject to a reversion, the value of the (nontaxable) interest retained by a 65-year-old would be $60,518. The value of the (gift taxable) remainder interest would be the value of the capital placed into the trust ($100,000) minus the value of the nontaxable interested retained by the grantor ($60,518). Therefore, the taxable portion of the grantor retained income trust gift would be $39,482. This remainder interest, by definition, is a future interest gift and will not qualify for the annual exclusion. The donor will have to utilize all or part of the remaining unified credit (or if the credit is exhausted, pay the appropriate gift tax).

The advantage of the GRIT is that it is possible for you to transfer assets of significant value to family members but to incur little or no gift tax. In the example above, the cost of removing $100,000 from the gross estate (plus all appreciation from the date of the gift) is the use of $39,482 of your constantly growing unified credit.

The GRIT is a "grantor trust." This means all income, deductions, and credits are treated as if there was no trust and these items were attributable directly to you, the grantor.

The longer term you specify the larger the value of the interest you have retained--and the lower the value of the gift you have made. However, the longer the term of the trust, the greater the probability that your death will occur during the term of the trust, and the entire principal (date of death value) must be included in the estate of a grantor who dies during the term of the GRIT since he has retained an interest for a period which, in fact, did not end before his death. If any gift tax had been paid upon the establishment of the GRIT, it would reduce the estate tax otherwise payable. If the unified credit was used, upon death within the term, the unified credit used in making the gift will be restored to the estate (if the grantor's spouse consented to the gift, his or her credit will not be restored). So the trick is to select a term for the trust that you are likely to outlive.

Quite often, the estate's beneficiary (possibly through gifts you make) will purchase life insurance on your life. Then, if you should die during the term of the GRIT, the tax savings you tried to achieve will be met through the life insurance and there would be sufficient cash to pay any estate tax.

IRC Code §2702 has severely limited the use of GRITs. Non-family members can use GRITs for any type of asset for any term. Family members will find GRITs useful only when the property transferred is a personal residence or for certain tangible property.

The regulations under §2702 allow two different kinds of trusts to hold personal residences, a "personal residence trust" (PRT) and a "qualified personal residence trust" (QPRT). A QPRT is very limited and inflexible, because it must not hold any assets other than the residence and must not allow the sale of the residence. A QPRT can hold limited amounts of cash for expenses or improvements to the residence, and can allow the residence to be sold (but not to the grantor or the grantor's spouse). However, if the residence is sold, or if the QPRT ceases to qualify as a QPRT for any other reason, either all of the trust property must be returned to the grantor or the QPRT must begin paying a "qualified annuity" to the grantor (much like a grantor-retained annuity trust, or GRAT).