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PLANNING OPPORTUNITIES IN A HIGH INTEREST RATE ENVIRONMENT

Reemergence of the Qualified Personal Residence Trust (QPRT)

Using Life Insurance to Hedge Mortality Risk

What is a QPRT?

A QPRT can be used to transfer a primary residence or vacation home to your beneficiaries at a reduced gift and estate tax cost. By transferring the home to the trust and retaining the right to live in the home for a specified number of years, the amount of the gift (for gift tax purposes) will be limited to the current fair market value of the home reduced by the value of the term and reversionary interests that you retain.

- Higher interest rates, and specifically a higher Section 7520 rate, result in a higher term interest value, and consequently, a lower value allocated to the remainder interest for gift and estate tax purposes.
- The longer the QPRT term, the higher the term interest value, and the lower the value of the remainder for gift and estate tax purposes.
- After the completion of the term, the grantor relinquishes control of the property, and the asset is effectively transferred for the Present Value of the Gift (example on the next page).
- HOWEVER: If the grantor passes away during the term of the QPRT, a reversion of the gift occurs – and the property is brought back into the grantor's gross estate and subjected to estate taxes.
- One can acquire life insurance to offset the estate tax that would be generated by the reversion – providing an infusion of liquidity to replenish the wealth that will be lost to estate tax.

Who Should Consider?

- **High-net-worth families with a gross estate above the lifetime estate and gift tax exemption amounts** – $13.61M per spouse in 2024, with a planned reversion to $5.49M (adjusted for inflation) after 2025.
- **High-net-worth families with a primary residence or vacation home with significant value** that they wish to pass onto their heirs. If the property has already been transferred to an irrevocable trust, opportunities to utilize a QPRT strategy may still exist.

How it Works

Sample Client: Male, Age 60, Preferred Health | Current Residence Value: $5,000,000
Projected Growth/Year: 6% | Section 7520 Rate: 4.6% | QPRT with Reversion? Yes

Present Value of Gift & Exclusion Amount Needed to Gift Residence:	
Full Gift	**$5,000,000**
10 Year QPRT	**$2,722,950**
15 Year QPRT	**$1,877,100**
20 Year QPRT	**$1,180,000**

Projected "Do Nothing" Value of Residence:	
10 Year QPRT	$8,954,238
15 Year QPRT	$11,982,791
20 Year QPRT	$16,035,677

QPRT **Estate Tax Risk** if Death Occurs Immediately Before Term Expires:	
10 Year QPRT (8,954,238 - 2,722,950 x 40%)	**$2,492,515**
15 Year QPRT (11,982,791 - 1,877,100 x 40%)	**$4,042,276**
20 Year QPRT (16,035,677 – 1,180,000 x 40%)	**$5,942,271**

The "QPRT Estate Tax Risk," which results if a death occurs before the QPRT term expires, can be effectively hedged using life insurance. There are several insurance types and solutions depending on the objective, shown below is the cost for a $5,942,271 death benefit covering an early death on a 20-year QPRT.

Lowest Cost for 20 Years	Lowest Cost for Lifetime	Highest Return at Age 90
20 Year Term $27,811 / Year $556,220 Total	Guaranteed to Age 121 $85,727 / Year $2,571,810 through Age 90	Increasing Premium $45,000 in Years 1-20 $140,000 in Years 21-25 $350,000 in Years 26-30+ $3,350,000 through Age 90

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