



HOW DOES THE QPRT WORK?

The tax advantage of the QPRT technique comes primarily from the way in which the value of the gift to the trust is calculated for gift tax purposes. The value of the gift is not the full value of the residence on the date of the gift. Instead, the taxable gift is only the value of the children's right to take possession of the residence at the end of the specified period of years, which can be far less than the current value of the property. For example, a \$1,000,000 home can be gifted to a QPRT, removing \$1,000,000 from the donor's taxable estate, but the taxable gift may be as little as 10 or 20 percent of the value of the residence. By keeping the gift tax value of the QPRT transfer below the donor's remaining lifetime federal gift tax exemption amount, the donor can avoid paying federal gift tax on the gift.