

*From the desk of Jeanne M. Kerkstra, Esq., CPA*

**Viewpoint**  
**Take Charge of Your Financial Well-Being**

It may feel as though things are spinning out of control financially. Remember, the economy will recover. Take action now to save money for your family.

A "down" economy is the time to transfer under-performing and under-appreciated assets. You will thank yourself later.

For example, say that you have a Florida vacation home that has seen a sudden, steep drop in value. Perhaps it was worth \$4 million six months ago, and today the neighborhood comps say \$2 million. You have no intention of selling. You bought it to have a holiday home for family get-togethers and a getaway place for you and your spouse. Now is the time to transfer this Florida vacation home out of your estate and have the appreciation pass tax-free to your children.

Let's compare transferring the Florida home to (1) two identical QPRT's<sup>1</sup> for both you and your spouse each holding a 50% interest so that your children become the owners upon your death (and presuming you both outlive the QPRT's term) vs. (2) to your children upon your death.

Under option 1, there is a discount taken on the value of the home due to the lack of transferability (e.g., each spouse holding an undivided 50% interest). Therefore, for purposes of valuing the gift under the QPRT, the value of the home is \$1,800,000. Consequently, each spouse will transfer a 50% interest in the home into their QPRT worth \$900,000. Assuming a current Section 7520 rate of 3.6%, both spouses age 60 and a QPRT term of 20 years, the value of the gift to your children would be \$244,215. A gift tax return for each spouse would be filed showing that each of you is utilizing \$244,215 of your \$1 million lifetime gift exclusion. No tax would be due with the filing of the return. Assume further that both of you outlive the term of the Trust and that at that time (20 years in the future) the Florida home is again valued at \$4 million. Not only would the entire value of the home be out of your estate, but the \$2 million in appreciation would have been transferred to the children tax-free.

Under option 2, the children receive the Florida home upon your death. Consequently, the value of the home would be includible in your estate at its current fair market value. Presuming that you had lived 20 years and the home had appreciated in value back to \$4 million, this full amount would be included in your estate. No amount would have been passed tax-free to your children. The estate tax is set to sunset in 2010 and to spring back to life in 2011 at a \$1 million lifetime exclusion. Consequently, as noted above, having one sizeable asset of value would pose serious estate tax issues. If you own at your death mostly illiquid assets, your children would be forced to sell at fire sale values assets to cover your estate tax.

There has never been a better time to do estate tax planning. Call us now so that we can implement techniques such as the QPRT prior to year-end.

<sup>1</sup>  
Qualified Personal Residence Trust

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