

The Kavesh, Minor and Otis Personal Residence Trust

The “Pain” of Estate Taxes

Given the value of real estate in Southern California, it's not unusual for someone's net worth - - including cash accounts, investments, company retirement plans and IRAs - - to exceed \$3.5 million (or \$7 million for a married couple). Once your net worth exceeds those amounts, your loved ones may face an estate tax of 45% after you (and your spouse) pass away. That tax can be hundreds of thousands of dollars! Worse yet, it's due in cash within 9 months of death and often forces loved ones to conduct a “fire-sale” of assets. No one wants to see his or her life's work go up in smoke to the IRS!

Unfortunately, Some Cures May Seem Almost As “Painful”

There *are* ways to plan ahead - - techniques beyond the Living Trust - - that can reduce or eliminate estate taxes. For example, you could make gifts, either directly or through irrevocable trusts, partnerships or corporations. However, you may not want to gift income producing or liquid assets that you may need to support yourself later in life, or you may not want to deal with the complexity and possible ongoing costs of certain trusts and business entities.

An alternative to reducing the estate taxes might be to set aside money to help pay the estate taxes, without your family having to liquidate assets. For example, you could purchase life insurance. However, you may not be able to get insurance at a reasonable price (or at all), or you may not want to use up funds that you may need later. So, what can you do?

The IRS - Approved Solution

There is a special, little known, IRS-approved technique called the Personal Residence Trust that just may be the perfect estate tax “cure” for you. Here's how it works.

You transfer only your home (or vacation home) to the Personal Residence Trust and retain the right to live in your home for a set period (or “term”) of years. After that term, your home passes to a second trust established for your family, where it may continue to be held during your lifetime. You can live in your home as long as you want, if you meet certain simple requirements.

Because your family does not actually receive your home right away, the IRS allows you to significantly discount the gift value of your home. Depending upon various assumptions, a \$1 million home may be valued, for gift purposes, at as little as \$300,000! In other words, the other \$700,000, plus future appreciation, can escape estate taxation, potentially saving your family over half a million dollars!

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How the Personal Residence Trust Works



- You May Continue to Live in Your Home for Your Lifetime
- You Can Continue to Deduct Your Mortgage Interest and Property Taxes on Your Income Tax Return



- You Transfer Title to Your Home
- You Gain Some Enhanced Asset Protection (against lawsuits and creditors)



After "Term" of Years



- You & Your Family Enjoy Even Greater Asset Protection
- Your Home Passes Estate Tax-Free (Maybe for Generations!)

It's Heads You Win, Tails You Don't Lose!

The "catch" is, you must live beyond the "term" of years or your home will come back into your taxable estate. But that's a "no-lose proposition". If you live long enough, you can save hundreds of thousands of dollars of estate taxes; if you don't, then you're no worse off for estate taxes than if you had done nothing.

Find Out If You Qualify

To learn more about the Personal Residence Trust and whether you qualify, make an appointment to talk with one of our attorneys, or schedule to attend our special seminar. Wouldn't it be nice to keep your cash and other investments, keep your life simple *and* keep your family's inheritance away from the IRS?!

This is intended only as a quick summary containing general information and does not constitute legal advice. Before you proceed with setting up a Personal Residence Trust, you should consult with a qualified attorney.