

Courtesy of: Royalty Owner Help Desk



Estate
planning

By the numbers

- A home may push the value of your estate over the estate-tax exemption limit of \$3.5 million.¹

¹ Source: irs.gov

² These amounts were set by the provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and are scheduled to expire after December 31, 2010. Unless extended by Congress before then, these provisions will revert back to tax laws in effect prior to the passage of EGTRRA.

Dealing with your home as part of your estate

Your home may be the single largest asset that you will pass on to your heirs. A home may push the value of your total estate over the annual estate-tax exemption limit (\$3.5 million for 2009 and not applicable for 2010).²

Your home presents some very delicate estate planning issues that assets such as stocks or mutual funds do not.

Here are some possible options for dealing with your home that you should discuss with your tax, legal, and financial advisors.

Stay in your home

If you are looking for a compelling reason to stay in your home for the rest of your life, the potential impact on your estate and your beneficiaries is a very good reason — provided the value of your estate is below the estate-tax exemption.

If you live in your home for your entire life, your beneficiaries will receive the home on a stepped-up basis to its current fair-market value. In other words, a subsequent sale of the home will not generate capital gains tax on the appreciation of your home since the time you bought it. And if the value of your estate is below the estate-tax exemption rate, your estate will also be exempt from federal estate taxes (your estate may, however, be required to pay state estate or inheritance tax).

Gift the home to a child

Giving your home to a child or other beneficiary may seem like a sensible solution, especially if you have multiple homes or if you plan on moving out for any reason.

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Key points

- A home is the single largest asset many people will have in their estates.
- A home presents some difficult estate planning issues that other assets do not.
- Work with your tax, legal, and financial advisors to develop an estate planning strategy that works best for you and your heirs.



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However, gifting comes with some pretty strict laws. For example, you will have to dip into your gift tax exemptions. In addition, in some circumstances, you and your spouse may have to pay gift tax.

When you make a gift of your home, your child will not get the advantage of receiving the home on a stepped-up basis. This means that the capital gains taxes will likely be higher when he or she finally sells the home.

Put the home in a qualified personal residence trust (QPRT)

This is an option to consider for an individual with a sizable estate (several million dollars).

Generally, a qualified personal residence trust involves the transfer of a personal residence to a trust, with the grantor (you) retaining a qualified term interest and the right to live in the home for a specified period. The IRS makes a calculation that values your right to live in your home over the period specified in the trust. Generally, this value is far below the market value of the home.

If you die before the end of the qualified term interest, the value of the residence is included in your estate. If you survive to the end of the qualified term interest, the residence passes to beneficiaries of the trust, at which time you may relocate, pay rent, or make other living arrangements.

Because a QPRT is a grantor trust, there are special valuation rules for estate and gift tax purposes. Your financial advisor can help you decide if this option is advisable for your specific situation.

It is important to weigh all of your estate planning options in regard to your home. Your financial advisor or estate planning specialist can assist you in the decision-making process.

Resource

Internal Revenue Service
irs.gov

This material should be used as helpful hints only. Each person’s situation is different. You should consult your financial advisor before making any decisions.

Contact your financial advisor for more information, or visit mfs.com.

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