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Planning Strategies for a High-Interest Rate Environment

As interest rates continue to climb, taxpayers will begin to see a greater benefit from strategies that leverage higher interest rates to reduce the actuarial value of a taxable gift. The higher the rate, the more favorable these strategies will be.

Qualified Personal Residence Trusts

A Qualified Personal Residence Trust (QPRT) is a trust used to transfer a personal residence to trust beneficiaries. The QPRT lasts for a term of years, and during the term the grantor may continue to live in the residence. After the term, the residence passes to remainder beneficiaries of the trust. Thereafter, the trust or its beneficiaries can rent the home to the grantor at fair-market value, if the grantor wants to continue to live in the home.

The initial transfer to the QPRT is a taxable gift of the value of the remainder interest, calculated using the Section 7520 rate. The higher the rate, the higher the value of the grantor's right to use the residence as his or her own during the term of the QPRT, and the lower the value of the gift of the future remainder interest. As the Section 7520 rate increases, the taxable gift decreases, making the QPRT a more attractive strategy for higher interest rate environments.

Charitable Remainder Annuity Trusts

This is the reverse of a CLAT; the grantor receives an annuity from the Charitable Remainder Annuity Trust (CRAT) for a term of years, and charity receives the remainder interest at the end of the term. The grantor is entitled to a charitable deduction, for both income and gift tax purposes, equal to the value of the remainder interest which is calculated using the Section 7520 rate on the date of the trust's creation.

In order to pass IRS scrutiny, the remainder interest left to the charitable beneficiary must always equal at least 10% of the fair market value of the assets contributed to the trust. When Section 7520 rates are higher, the remainder interest is greater and more likely to meet this 10% threshold. Thus, more taxpayers will be able to take advantage of this strategy as interest rates continue to rise.

Contact Us

If you have questions or would like to discuss how these high-interest rate strategies can be used to help meet your planning goals, please contact a member of the Husch Blackwell Private Wealth team or your Husch Blackwell attorney.

Read about strategies appropriate to low-interest rate environments.