Wealth Planning **Update**

Estate planning for the family vacation home

Three estate planning tips to keep your vacation home in the family for generations.

Whether it's a cabin in the woods, mountain lodge, beach house or lake home, a vacation property can be one of your family's most cherished assets with not only substantial monetary value but also meaningful sentimental attachment. However, transferring a family vacation home to succeeding generations can require thoughtful planning. Here are three tips to help avoid potential disputes or an unwanted sale in the future.

① Do a reality check.

Have an open and honest conversation with your children to determine whether their desires and interests align with yours.

- **Do they want the home?** For some children, continued ownership of a vacation home might be more of a burden than a gift.
- **Will they be able to use it?** Children may be limited by geographic location, time constraints or other obligations.
- **Can they afford it?** The strong family bonds and lasting memories that can come with preserving a vacation home for future generations often outweigh any amount of money children would receive by selling it. But children of modest means may prefer to sell the home and receive their share of the value in cash. Expenses to consider include taxes, maintenance and the travel costs to use the home.

The most successful course of action for you and your family may be to leave the vacation home to children who want and can afford it. (If none of them are in this position, consider including a specific directive in your estate plan that the home should be sold.) If you have limited other assets to pass on, the children who receive the home can either obtain a mortgage or pay their other siblings over time with an installment note for their share of the home value.

② Establish an ownership structure.

There are three common approaches to choose from.

- **Family limited liability company (LLC).** The preferred ownership vehicle, LLCs are flexible and the operating agreement which will govern the management and ownership of the property is easy to amend if your family's circumstances change. You can transfer membership interests in the LLC with a simple assignment form. In addition, an LLC can provide your children with personal liability protection against creditors or if a user of the property is injured and against the claims of a divorcing spouse of a co-owner.
- **Direct individual co-ownership as tenants-in-common.** This simple structure may be suitable if you have few children who you expect will generally agree about how to manage the home. You simply deed the home to children as co-owners. However, with each generation the number of owners will increase, potentially making it more difficult to reach a consensus. Plus, any co-owner can force a sale of the property. Finally, the home is subject to the claims of any co-owner's creditors or those of a divorcing spouse.
- **Trust.** A trust agreement governs who will be able to use the home and how they can use it. You name one or more trustees to make decisions concerning the home and to oversee the management of the property. You can even set aside funds in the trust to cover future expenses, relieving your children of that responsibility. A disadvantage is that trusts are often inflexible and difficult to amend if family circumstances change.

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③ Create a written plan to govern management and use of the home.

Include the following five categories:

- **Usage.** Determine an equitable method for allocating use of the home, including most desirable dates such as holidays, weekends, summer, etc. (An annual rotation is one strategy.) Consider if you want to allow your children to rent it when they're not using it. Will you permit pets or smoking? How will you handle accountability for damage caused to the property?
- **Routine maintenance.** Who will be responsible for house cleaning, lawn care, window washing, etc?
- **Recurring expenses.** Decide how money for property taxes, insurance, utilities, maintenance, etc., will be collected and paid. Will all children pay an equal share or will allocations be based on how often each uses the home? And what happens if children do not pay their share? Consider penalty charges, restrictions on their use of the property, or an involuntary transfer of their ownership interest to other family members.
- **Major capital expenditures.** Typically, co-owners will vote on major repairs, such as roof, HVAC replacement, remodeling, and furnishing updates. Decide on the required vote (unanimous, super-majority or majority) and on payment responsibilities.
- **Sale of the home or ownership interests.** Although you may dream that your children and grandchildren will keep your vacation home in the family forever, it's important to include an orderly way for the home to be sold or for one child to sell his or her interest. Be sure to include these details:
  - The required vote
  - Right of first refusal, so family members have the right to purchase the home before any ownership interest is transferred to a third party (including spouses of a deceased or divorced family member owner)
  - Whether the buyout of an existing owner should be on a discounted basis
  - Whether a family seller should be paid over an extended payment term or in a lump sum

Your family vacation home can create memories that last for generations. With thoughtful planning, you can avoid disputes and enable your children and grandchildren to enjoy the home for years.

Ask your financial professional for help making your family vacation property part of your estate plan.

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