Keeping vacation homes in the family

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Now that autumn has officially arrived, many people have spent fond memories of visits with their family in a vacation property. Perhaps you own a vacation property in Michigan along the water or at Eagle Ridge in Galena on the golf course. Wherever the property is located, one important question is how to keep the vacation home in the family after you have passed on.

All vacation homes require maintenance from painting, sealcoating decks, replacing HVAC units, replacing roofs and on and on. If you have a number of children, how will they determine who will pay for these items? How will they decide which child can use the residence and when? Can your family even agree on decisions of this nature once you are gone?

One of the first things to do is to talk with your adult children about whether they wish to have the vacation home stay in the family. Many times you may assume that the children who enjoy the use of the home while you are there will want the responsibility of maintaining the residence and paying the real estate taxes and other expenses on the property. This may be an incorrect assumption, as your children may be raising their own children and have inadequate time or resources to even use the vacation residence. You may be surprised with the answers that you receive from your family.

If you find that your children do not want to keep the house in the family, you may wish to sell the property when the real estate market improves. If, however, you find that your children really enjoy the property and intend to use it with their families, then there are choices of what to do with the property. For instance, you can transfer your interest into a limited liability company, which will protect your family from a lawsuit if someone slips and falls on that property. It may also provide some level of asset protection.

If you decide to use the limited liability company, you should have rules in the form of an operating agreement that will indicate how decisions will be made with respect to the property, what to do in the event that the property requires maintenance, when additional funds may be needed for the property, when the property should be sold, who will be the manager of the property, to name a few. These are all important decisions that will hopefully keep the family from disputes when you are no longer around to settle them.

In addition, to include your family in the limited liability company, you will need to make gifts of part of your interest in such company over time. Under current tax law, you may make gifts of $12,000 per person per year ($24,000 if your spouse joins in the gift) before using some of your lifetime exemption amount. You will need to consult with your tax professional or estate planning attorney to decide what is appropriate in the way of a gift to your family members.

There are a number of other ways to handle the transfer of the vacation residence to the next generation and keep it in the family, such as a qualified personal residence trust, a cost-sharing arrangement or a partnership. Whatever way you may choose, it is best for you to be the one making the decision during your lifetime to minimize friction among your children about the use and care of this vacation residence.

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