

Vacation Home Planning

Vacation homes are a welcome refuge from the demands of daily living, and often the source of a cherished mix of multigenerational memories and family history. But times change and so do families and circumstances, sometimes in unexpected ways. Here are six considerations that can help keep your plans and expectations aligned with your family's evolving needs.

1. Be intentional

The COVID-19 pandemic of 2020 upended planning-as-usual for the summer season. Opening the summer home is no longer simply a matter of getting the yard cleaned up and the boat in the water. There are new considerations to keep in mind. Determine whether any current travel restrictions will affect your trip. At worst, a border may be closed to international travel. Or the state you are traveling to, or through, may have temporarily imposed different health safety requirements than the one you live in. This may require you to alter your route or lead to your family members making fewer stops along the way. Consider the impact of any social-distancing or self-quarantine requirements. This is especially important when friends and family who come from different locations and generations mix and mingle. Careful coordination regarding who will come, when and for how long may be needed to enjoy your time together while helping everyone to stay safe and healthy. Know what the local health care options are should a need for them arise.

2. Have a contingency plan.

Contingency plans and vacation homes do not necessarily go hand in hand. But under current circumstances, creating a contingency plan for your vacation home is a good idea.

Due to changing travel restrictions, you may find that you are not able to return to your vacation home as you planned. When faced with the obstacle of an inaccessible home, planning for its continued maintenance and management in your absence is vital. Also, check your property and casualty insurance to be sure there are no gaps in coverage if the property is vacant for longer than usual. If you rent your property, everything has changed. Management companies have new cleaning requirements. Many require "gap days" between rentals. The new frustrations of renting a vacation property are not likely to abate anytime soon. Having a reliable, trustworthy property manager is invaluable. The Covid-19 pandemic has had many individuals working remotely from their vacation homes. However depending on your home's location this may affect your state income tax calculation this year, and which state(s) can collect from you. Complicating matters further, many state tax authorities are currently reassessing their filing guidelines as they look for additional revenue sources. If you have been working remotely, consider contacting tax advisor to verify that your current withholding and filing arrangements are appropriate for your situation.

Vacation Home Planning

3. Have the conversation

You likely have thoughts about the future of your vacation property and how future generations will use it. But have you had a conversation with your spouse, your children, maybe even your children's spouses, about your vision for the future?

That conversation should take place before making any long-term plans. As cherished as your vacation property is, it is important to be informed when it comes to what the next generation thinks.

Create a safe place for this difficult conversation to occur. Be open to alternative viewpoints. While there may be a common desire to keep the property for the use and enjoyment of the family for the long term, it is also possible that children and grandchildren have other preferences they have not shared for fear of disappointing you.

Having an open and candid conversation before making plans can alleviate concerns, provide clarity around some of the more daunting issues in planning for the future of the property, and provide a strong foundation for ongoing family harmony.

4. Frame the plan

There are two options for the future – sell the home or keep it and transfer it to the next generation. It is helpful to think of a few key considerations before exploring the implications of either option.

How is (or will) the property be owned and controlled?

When should a sale or transfer occur?

How will the property be maintained and used until its sale or transfer – or, if it will be transferred in the family, thereafter?

5. Manage the sale

After the conversation, and following a decision to sell the vacation home, ownership, timing, interim maintenance and use become the primary considerations.

Determining who has decision rights regarding its sale depends on how the property is owned. When it is held by individual titleholders, they will make the decision. If the property were held in a limited liability company (LLC), the manager(s) of the LLC would decide. For property held in a trust, the trustee is the decision-maker.

To manage the tax cost of a sale, it is important to gather records of the purchase price and improvements to establish its tax basis. This helps identify opportunities to minimize any gains taxes on the sale. For property that is owned individually and held in a revocable grantor trust, under current U.S. law, if the property is held until death and then sold, there will ordinarily be no gain due to what is known as “basis step up at death.”

If the property will be held for a future sale, you should plan for the interim use and payment of expenses.

Vacation Home Planning

6. Plan the family transfer.

Planning for a transfer within the family is perhaps the more complex of the two alternatives. Begin by reviewing how the title to the property is currently held, then explore your options for transferring ownership.

Transfer to a specialized qualified personal residence trust (QPRT) or sale to a long-term intentionally defective grantor trust (IDGT) are strategies to consider, since a lifetime transfer leverages your available gift tax exclusion. Transferring the home to a limited liability company is another alternative to consider.

With each strategy (or combination of strategies), work with your legal and tax advisors to plan the selection of trustees and managers, the timing of the transfer, opportunities for minimizing taxes, options for continuing use and maintenance, the funding of expenses, and to understand exit and modification strategies if (or when) circumstances change in the future.

Whether family ownership of your vacation home is intended to last for generations to come or for just a few more years, having well-conceived plans in place leaves more time for what matters most – enjoyment of the home and the creation of the memories you will all cherish and share, regardless of how needs change over time.