# Estate Planning for a Vacation Home

**If you are lucky enough to own a vacation home, then you need to figure out what will happen to it after you are gone. Many parents hope to keep vacation homes in the family, but guaranteeing that can be tricky.**

While meant to be fun and relaxing places to get away from everyday life, vacation houses can cause problems between siblings after their parents pass away. Some siblings may want to use the house, while others may need cash and want to sell. There may be disputes over who pays maintenance costs or when different families can use the house.

One option for passing on a vacation home is to leave it to your children in your will. The problem with this is that if the children own the house equally as joint tenants or tenants in common and one sibling wants to sell, that sibling can demand to be bought out. If the other siblings can't come up with the money to buy out the sibling, the sibling who wants out can force the sale of the house.

Before you decide to leave your vacation house to your children outright, you should have a family meeting to find out whether all the children actually want the house. If they do, you should discuss who will be responsible for maintenance and property taxes, and who has the right to use the property, among other issues. Putting a plan in writing can help prevent or resolve disputes down the road. The plan can also include a buyout option if any heirs decide they do not want to own the property. The buyout price can be less than if the property is sold to a third party and payment terms can extend over several years.

Rather than giving the property to your children outright, you can also put it in a trust or a Limited Liability Company (LLC). LLCs have become a popular estate planning tool for vacation homes. Using an LLC allows parents to transfer interest in the LLC to their children while still retaining control. Parents can use the annual gift tax exclusion to slowly gift their children additional interest in the LLC each year. The LLC agreement can designate a property manager, provide instructions on maintenance costs and property taxes, and include buyout options. Property in an LLC is also protected from creditors. (Unfortunately, in many states – including Maryland and D.C. – there will be a significant transfer tax to accomplish the transfer – ideally, the vacation property should be titled in an LLC upon purchase.)

Another option is to put property into a qualified personal residence trust (QPRT). A QPRT allows the parents to live in the home for a certain number of years and at the end of the term, the children own the home. The main purpose of a QPRT is to reduce taxes on property, but QPRTs are tricky and must be set up just right or there will be no tax savings. For more information about QPRTs, give us a call.

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