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Planning for the Transfer of the Family Vacation Home

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Your family's vacation home is more than just a property. It is where your family has created memories to cherish for generations.

Deciding how to pass down such a meaningful asset can be an emotional decision, but it also can present an opportunity for a strategic financial one.

With the right strategy, you can use two common options to protect your property's future, minimize tax liability, and preserve family relationships.

Gifting your family vacation home

Gifting a home involves transferring ownership to someone while you are still living without receiving any compensation or payment for the home, an option that can potentially reduce the taxable amount of your estate.

Keep in mind that when you transfer ownership, you often release all control of the property. Alternatively, you may choose to make periodic gifts of the ownership interest or transfer a partial interest. Speak with your family to plan the timing of the transfer, potential tax implications, and how the new ownership might affect family dynamics.

Inheritance of a family vacation home

This method is what people most commonly use to transfer property to chosen beneficiaries upon your death. A will or trust outlines how assets are distributed per your wishes, typically through probate.

Key tax considerations

Outside of the personal element of this decision, one of the biggest factors for deciding which method to use is the potential tax impact.

You will want to consider:

- **Gift tax.** You can gift up to $18,000 per recipient for 2024 without triggering a gift tax. Gifts exceeding that amount may be subject to tax based on the property's fair market value.
- **Capital Gains tax.** Based on the seller's annual taxable income, this tax may be triggered when selling property that has significantly increased in value. Gifting shifts this tax

burden to your recipient, who might owe on the difference between the original purchase price and the sale price when they eventually sell.

  - Inherited assets receive a stepped-up cost basis, meaning the new cost basis (as compared to the original purchase price) is "stepped up" to fair market value at the time of inheritance (commonly referred to as "date of death value.") This can significantly reduce capital gains for heirs.

For example, if your parents bought the home for $50,000 and the property is valued at $400,000 when you inherit it, your cost basis would be $400,000. If you sell the home for $450,000, the capital gain would be $50,000, not $400,000 provided you own the property for one year.

- **Estate tax.** When property is gifted, the overall value of your estate decreases, which can potentially lower estate tax owed upon your death.
  - For 2024, the first $13.61 million of an estate is exempt from federal estate tax. Estates that exceed that amount face a progressive tax, meaning the greater the estate's value, the greater the tax. Be aware that some states also impose estate and inheritance taxes on residents.

Another consideration is how the recipients of the property will pay for capital improvements and the ongoing expenses associated with home ownership. It may be appropriate to create a separate cash account to cover these costs.

At Saiber, we do more than offer guidance. We are here to help with title transfers, verifying that the property is free from debts or liens, and crafting your comprehensive estate plan in a tax efficient manner.

Our team handles every family's estate with the care and attention it deserves. After all, these are not just assets; they are your legacy.

Reach out to our Estate Planning practice to discuss the best options for your situation and get tailored support transferring your family vacation home.