

Abstract: Holding a vacation home shared by family members in a limited liability company is one option that can offer important benefits. This short article lists several: asset protection, ease of management, ownership restrictions and estate planning advantages.

Should an LLC hold your vacation home?

If you share a vacation home with family members, holding it in a limited liability company (LLC) is one option that offers several important benefits. Here are a few:

Asset protection. By establishing an LLC to own the home and transferring interests to family members, you can protect the home against claims by a family member's personal creditors. You can also shelter your family's other assets against claims by the LLC's creditors (such as a lawsuit by someone injured on the property). Note that the level of protection available depends on all of the facts and circumstances, including the type of claim and applicable state law.

Ease of management. A carefully prepared LLC operating agreement can help avoid intrafamily disputes by detailing family members' rights and responsibilities. For example, it might state who's permitted to use the home and when, as well as how costs (and, if applicable, rental income) are allocated among family members and other permitted users.

An agreement can also specify who's responsible for cleaning, maintenance and repairs, and who has decision-making authority over the home. And it can establish rules for inviting guests and specify acceptable and unacceptable activities on the property. A particularly thorough agreement could even detail how management responsibility will be transferred to the younger generation.

Ownership restrictions. To ensure that the home stays in the family, you can build transfer restrictions into the operating agreement or include them in a separate buy-sell agreement. For example, you might place restrictions on ownership by nonfamily members or prevent ownership by members' ex-spouses.

Another common approach is to require or permit the LLC or other members to purchase the interest of a member who is getting divorced, filing for bankruptcy, or otherwise attempting to transfer his or her interest outside the family. The agreement might provide for a professional appraisal of the interest to determine the price or give the other members a right of first refusal.

Estate planning advantages. Owning a vacation home through an LLC generally avoids the need for probate proceedings when an owner dies. In addition, restrictions on LLC interests typically qualify them for minority interest and lack of marketability valuation discounts, which can substantially reduce any applicable estate and gift taxes.

An LLC isn't the only way to own and share a vacation home, but its combination of limited liability, asset protection and management flexibility makes it an entity of choice for many people. Your advisor can help you design an ownership structure that's right for you.