



Will Power

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ISLAND RESIDENCE INHERITANCE DREAMS SHATTERED

Many of my clients who live on the islands dream of leaving their beloved residence to loved ones. They imagine that long after they are gone, their children and grandchildren will frolic on the beach at the family beach house, remembering the good times that they all had together and building more good times for the future.

This dream is often shattered when the children actually inherit the island residence. Upon the death of their parent, the residence loses its “Save Our Homes” property tax assessment cap. This often results in a significant increase in property taxes, sometimes to the point that the family can no longer afford to retain the residence. When you add on the increases we have all experienced in homeowner’s insurance rates in Florida, it is not uncommon for even a modest town home on the island to require tens of thousands of dollars to maintain on an annual basis.

In my last column I discussed estate planning issues that would lead a client to consider purchasing life insurance and placing that insurance into an irrevocable life insurance trust (ILIT) to provide for liquidity needs. Today I am going to review yet another reason an ILIT might be used – that is – for maintaining the family island residence.

Rather than giving the residence outright to one or more children, consider placing it into a special Irrevocable Island Residence Trust upon your demise. You could fund that trust with a life insurance policy so that the life insurance proceeds will be reinvested to earn income, with the income used to pay for the costs of taxes, insurance, association fees and other maintenance items.

When one tries to bequeath an island residence to a group of children who are raising their own families, there are other considerations. One child may have more resources

than another child. The bankruptcy, divorce, or other financial calamity of one child might affect the title for all of the children. These are all reasons not to leave the residence to the children outright, outside of a trust. A trust will allow you to accomplish the following:

- A trust will allow you to name a trustee (which might be one or more of your children), or the person who will be the responsible party for following the rules set up in the trust for the children to share the residence;
- If the residence is held in the right type of trust, a financial calamity or liability for one child due to bankruptcy, failed business or divorce will not affect the title to the property;
- A trustee can be the “captain” if you will, over the residence and decide if and when it would be sold, (avoiding arguments that might impede a listing agreement with an agent, or entering into a sales contract), or deciding, for example, how much should be spent on upgrades or maintenance and the like; and
- If you have provided a source of liquidity to pay for the escalating expenses associated with the residence, the trustee can manage those investments to insure that the proceeds are used to maintain the family residence for generations.

This way your dreams of having your family enjoy the island residence for generations to come are much more likely to come true.

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