

EAST END LIVING

Secrets to Estate Planning for Summer Houses

BY CLAUDE SOLNIK

The East End has more than its share of summer houses, from mansions to smaller houses on the waterfront or away from the beach. They often become places where families gather through generations. Parents may own the summer house, but it is a building filled with memories and reunions that help reunite families who may live far apart. Even when parents pass away, the summer house can provide a place to continue to gather, holding the family together.

While stocks, bonds and primary residences go up for sale, how to handle a summer house from estate and income taxes and even whether to sell can be complex. That can turn a summer house into a kind of winter of discontent, or an asset that provides economic or emotional strength depending on how it's handled.

"It may have a long history of good memories and a multi-generational connection," says Mary O'Reilly, co-chair of the trusts and estates practice at Meltzer, Lippe Goldstein & Breitstone. "Given the prices of housing on the East End, it's likely to be a very valuable asset in an estate. It's important to plan for it."

While the main house may go up for sale, what to do with a summer house can be a key, if sometimes neglected, part of estate planning.

"Clients don't want to see it sold. Some of their kids might want to see it sold. They live far away and won't use it," O'Reilly says. "This is an asset that brings the family together, but if not planned for correctly, it can cause a lot of fighting."

Lack of planning, from taxes to decisions regarding what to do with a summer house, can lead to financial problems, particularly with estate taxes typically due nine months after death.

"It may put a liquidity drain on the estate by having a valuable asset where you have to come up with liquidity for taxes," O'Reilly continues. "It may force you to sell quickly in a fire sale, taking an offer you wouldn't if you weren't under the gun. You might want to hold for a few years and do better."

The sooner the planning starts, the better, O'Reilly says. She adds that, typically, it's best for parents to be involved and initiate planning.

"The parents are the glue in the family. While they're alive, that's their role," O'Reilly says of many cases. "They make rules and keep things together. There's less friction if the directive comes from Mom and Dad."

Tax planning also can be crucial for particularly pricey summer houses with New York State's estate tax exemption currently set at \$6.11 million and the federal estate tax exemption at \$12.6 million, but decreasing to \$5 million as of January 1, 2026.

"You have to think about planning for taxes," O'Reilly says. "There are different estate planning techniques."

Summer homes can be put into different types of trusts such as a qualified personal residence trust (QPRT) to remove them from the taxable estate or, or they could end up hit by a roughly 50% estate tax including federal and state levies.

"If the home has significantly appreciated, you also have to think of the income tax planning," O'Reilly says. "Just gifting the house can save state taxes, but it may not be the best assets to gift if it has built-in gain. The client's entire estate needs to be considered."

Still, the sentimental and personal aspects can be as complex, or more complex, than the economics.

"What I think is more important and difficult than planning for the taxes is dealing with the emotional aspect and what will be fair among the children to minimize disputes," O'Reilly says. "If there is a child who uses the house, their share of the estate can be satisfied with the house and you can give another child other assets for their share."

Or it can be kept in the family and divided in terms of use among children.

"There was a rotating schedule. Each family would get the house for a two-week period," O'Reilly says of one \$10 million Southampton summer house. "The kids never ended up following that schedule, but it was nice to have."

Sometimes families give a first



MARY O'REILLY

right of refusal to the children to give them the opportunity to buy the house if they want it. If there is more than one child who may want this, it can be decided by picking a name out of a hat, flipping a coin or drawing straws. "If they don't want it, it goes to the next," O'Reilly says.

Summer houses bring expenses as well as enjoyment, ranging from taxation to maintenance and upkeep. That means planning has to include how to cover costs, as well as manage the asset.

"All the children can participate in the house," O'Reilly says. "There's a schedule or understanding and an

allocation of how expenses are paid."

Families also can allocate money from the estate to maintain the house so the estate picks up all the costs.

"You can set aside a fund to cover that, set aside other assets to cover that," O'Reilly continues. "The families who use it could be responsible for pitching in."

Families also can opt to rent the house, possibly for a month, to help carry the costs.

"It ended up turning into where they started to rent it more and more," O'Reilly says of one family. "Now it's a source of income for them."