

Published March 23rd, 2016

Lynn's Top Five Is a Vacation Home Right for You?

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As the weather begins to warm, spring break around the corner and the summer travel season just a heartbeat away, many of you will enjoy relaxing and frolicking out of town in remarkable places. Some of you will fall in love with these locations and decide to look into buying a vacation home there. Here are some things to keep in mind while you give this more thought.

1.) Will you use it enough to make it worth the cost? Many of us flirt with the idea of buying a vacation home at one point or another, but you have to ask yourself: With kids immersed in sports and other local activities that tie them up most weekends, what are the chances that a vacation home will feel like the joy you hoped for, as opposed to just one more major fiscal responsibility? On the other hand, if you and your family really return to the same area consistently and frequently, having your own place may be fiscally reasonable. Notice I didn't say a great cost savings - with real estate prices as high as they are, I think it's rare to break even vs. simply booking a room or using an on-line rental option.

2.) Are there any tax advantages? If you are facing a sizeable tax bill this year, you may be thinking about the possible tax benefits of owning a second home. True, you may be able to deduct your mortgage interest and property taxes up to certain limits, but if you also want to deduct improvements and upkeep, you'll need to repurpose this home as a vacation rental. Even then vacation rentals come with a host of tax limitations, such as a fairly low limit on the number of days you and your family may use it, passive loss limitations tied to your annual adjusted income, and if you sell down the road, the recapture of depreciation you take - not to mention paying taxes on any taxable gain at sale.

3.) Management Issues. Inevitably, pipes break, roofs leak and sand and sea air wear down siding and paint in resort areas. If you are here, who is "there" taking care of these issues? Will that relaxing vacation turn into simply another work week? Will there be maintenance problems you need to address while back home? Perhaps you should hire a property manager to keep an eye on your place and handle these day-to-day matters, which is a good time management solution for you, but another expense to consider.

4.) Second Homes as Investments. In a perfect world you buy a vacation home, pay less for vacations because you have your own place, and then when you don't need it anymore, sell it for a tidy profit. Rarely will this be your result, unless you have an unusual situation. Otherwise, you should only buy if you can afford to support two homes with no known after-tax profit as your end game - maybe even a loss. Few of us can really afford to do so without making other budget sacrifices. And for some, this would be a danger to their financial stability instead of a carefree vacation solution.

5.) What are you leaving behind --- legacy or responsibility? Of course the fondest wish is that you will never need to sell and instead will be leaving a property behind for your heirs to inherit and enjoy for generations to come. That's not likely to happen without some drama. Some heirs will use it more than others. Some will want to keep it pristinely maintained, others won't have the cash flow. So fast-forward two or three generations and what you have is a lot of potentially contentious issues and not a lot of relaxation and enjoyment for your heirs.

So here's my candid bottom line: vacation homes are expensive and not often the carefree experience of the brochures you see. Know what you are getting into and be fiscally prepared and capable to hold on for many years. Do your homework up front so that while you are an owner, you are prepared for the unwanted and unplanned expenses that will inevitably crop up. Ultimately you need to be emotionally prepared to sell before you are unable to care for this home so you don't leave a burdensome legacy behind.

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[back](#)

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