


Succession Planning for Your Valuable Lake Property

Northern Waters Land Trust

June 2023



An aerial photograph showing a large body of water on the left, a dense forest of green trees in the middle, and a small building on the right. The sky is blue with scattered white clouds.

Presentation & Zoom Logistics

Please mute yourself when joining Zoom

Type questions in the Zoom chat during
the presentations.

(Staff will consolidate questions for the Q/A)

Slides will be available after the webinar

Q/A will be at the end of the
presentation



Agenda

- **Welcome & Overview of NWLT**
- Elizabeth Mboutchom
- **Tax Barriers to Transfers to Heirs**
- Andy Biebl
- **Lake Property Succession to the Next Generation**
- Laura Hansen
- **Preserve your Property: Conservation Easements**
- Annie Knight
- **Ways to Support NWLT**
- Elizabeth Mboutchom
- **Q&A**





Elizabeth Mboutchom

Director of Education &
Development
Northern Waters Land Trust

**Overview of
Northern Waters
Land Trust**



Northern Waters Land Trust

Preserving Land to Protect Water

- **Service Area:** North Central Minnesota
- **Prioritization Tool**
 - Protect environmentally-sensitive lakeshore & watershed parcels to create more resilient ecosystems, preserving water quality & wildlife habitat.
- **Staff of Specialists**
- **Volunteer Board of Directors and Committees**
- **Non-profit:** 501(c)(3) organization
- **Accredited Land Trust**





Caveat: We are not providing legal or tax advice. This session is designed solely to provide an overview of alternatives to consider for your specific situation with your professional advisors.

Workshop Goals

- Identify alternatives and strategies for transferring valuable lakefront or recreation property
- Highlight charitable strategies that may benefit you and NWLT's conservation mission





Andy Biebl

Retired CPA

Tax Costs to Transfers to Heirs



Two Alternatives: Give or Sell

Most common: Give to heirs

- Give at death (**Estate Tax barrier**)
 - Federal estate tax exemption per decedent: \$13 Million
 - Minnesota estate tax exemption per decedent: \$3 Million
 - Tax rate on excess:
Federal 40%; Minnesota 13-16%
- Give during lifetime (**Gift Tax barrier**)
 - Federal: Consumes part of \$13M estate exemption
 - Minnesota: No gift tax!

Tax Costs to
Transfers to
Heirs



Tax Costs to Sale

Sale (the Income Tax Barrier)

- **Sale post-death**: (Example: Sale by estate – to Child #2)
 - Tax free: “Step-up in basis” rule
- **Sale during lifetime**: Capital gain on excess of sale price over accumulated cost
 - Federal cap. gain rates: 0% - 15% - 20% - 23.8% (est. ave. of 18%)
 - Minn. rates: 7 - 8%, but 10% over \$285K income



Income Tax on Sale: Example

Sale of Cabin during Lifetime to Child #2			Cash Flow
• Sale Price	\$800,000		\$800,000
Less accumulated tax cost		<u>(300,000)</u>	
• Taxable gain		<u>\$500,000</u>	
• Federal tax (est. ave. 18%)	\$90,000		
• Minn. tax (est. ave. 9%)	<u>45,000</u>		<u>(135,000)</u>
Net Proceeds after tax			\$665,000

Conclusion: If a sale planned within the family, better after death at zero tax cost!



Tax Costs to Sale

Installment Sale:

Seller is paid over multiple years to use lower federal cap. gain rates (0% and 15% vs. upper 20% +23.8%)

Conservation easement before sale:

Reduces value for sale

* Plus creates a charitable deduction that may offset gain on sale

Strategies to reduce capital gain tax cost



No Plan for your lakeshore property?

No will

Minnesota intestacy law determines who receives property -
via relationship

Will - to heirs equally

But this plan ignores the realities

- Unequal use by heirs
- Unequal ability to fund the overhead of the property
- Unequal time and effort in maintenance/management
- One heir wants to sell

Or the worst horror of all

Divorce or death of an heir
and their share of
ownership goes to...



...that worthless
son-in-law





Planning Solutions

- Use of an entity – LLC or Trust
- Seek professional advice to implement/customize
- More to come from:
Attorney Laura Hansen





Laura J. Hansen

Attorney

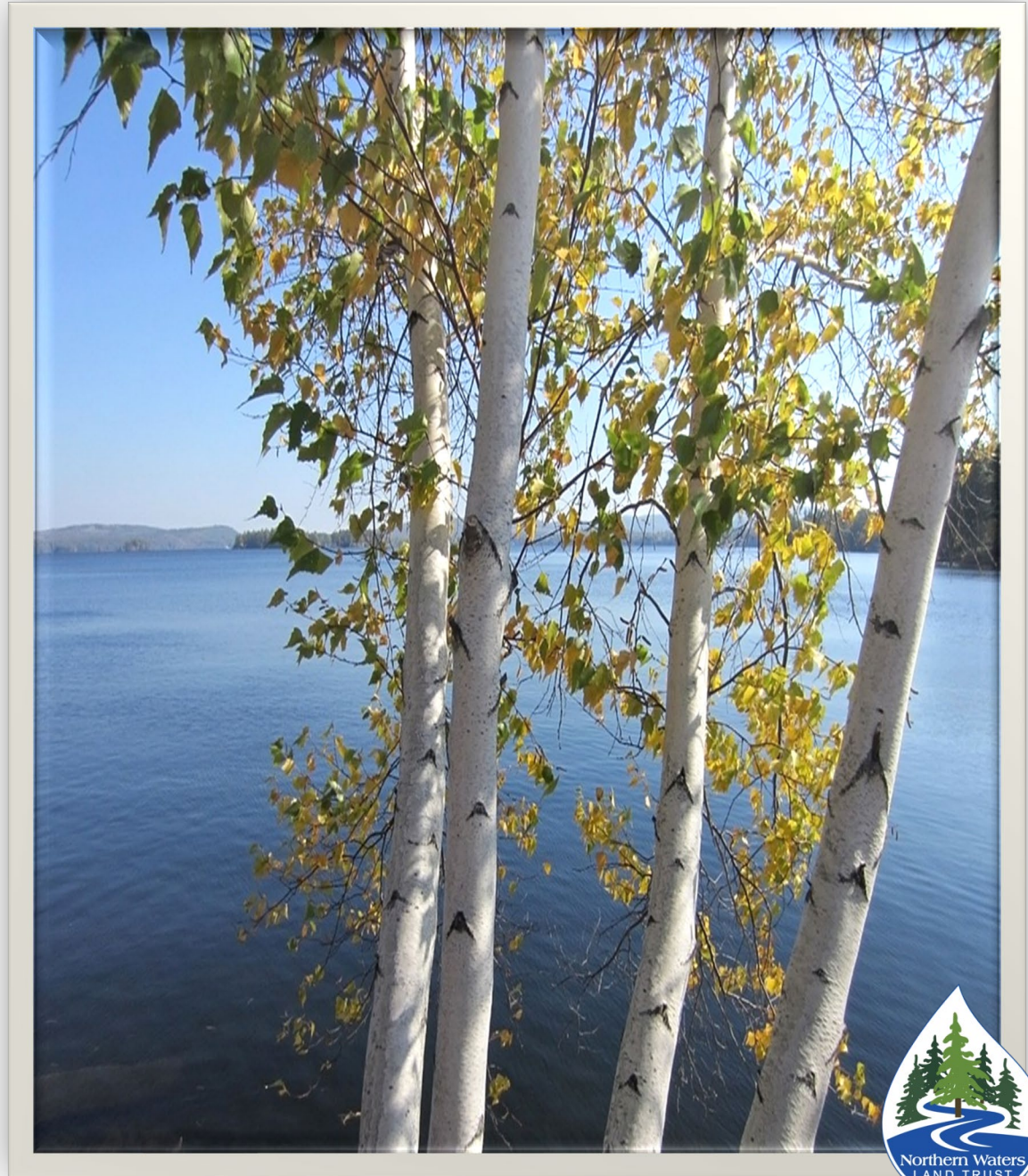
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Lake Property
Succession to the
Next Generation
of Owners



Legacy Lake Properties

- Keys to Successful Long-term Family Ownership
- Consequences of lack of planning
- My recommendation



Keys to Success

- Commitment, Dedication and a Strong Desire
- Communication
- Willingness to do the Necessary Work
- A Plan is put in place...
 - Tailored to the property
 - Realistic for family members
 - Accommodates change



What happens if you fail to plan?

Joint Ownership by Individuals in Fee

- No governing document
- Marital interest of spouse
- Probate issues
- Forced Sale through partition action
- Conflict
- Loss of Family Relationship and Loss of the Legacy



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Is a Trust a good option?

Facilitates planning, but a Trust ...

- Does not allow for long-term ownership
- Does not promote equal participation in management, decision-making, or expenses
- Terms set by Settlor and permanently locked in
- Lead to conflict among trustee and beneficiaries
- Does not accommodate change and can lead to unintended outcomes



My Recommendation:

FAMILY CABIN LLC



What is a Limited Liability Company (LLC)?

- A business entity, registered with MN Secretary of State
- Owners are called 'Members' and own a percentage (%)
- An LLC provides liability protection to its members
- Taxed as partnership
- Governed by an Operating Agreement; democratic
- Perpetual existence; an LLC can last forever



The Operating Agreement provides the key:

It is an agreement among the Members:

- Use and enjoyment of the lake property
- Allocation of ownership/equity; often equal
- Allocation of expenses; can be equal or based on use of lake property
- Governance structure and how decisions are made
- Leadership and assignment of management responsibilities
- Buy-out of a Member
- Outright sale of property
- Resolution of conflict
- Succession to the next generation and multiple generation ownership
- Change over time; the OA can be amended by the Members



Real Life Examples

Success-group of 9



Failure-Partition Action



Just starting



Final Considerations



Is your family committed to long-term ownership and ready to put plan in place?

If yes, then the Next Steps:

1. Have the discussion with your family
2. Consider forming the LLC and putting Operating Agreement in place now
3. Talk to tax and legal advisors about timing



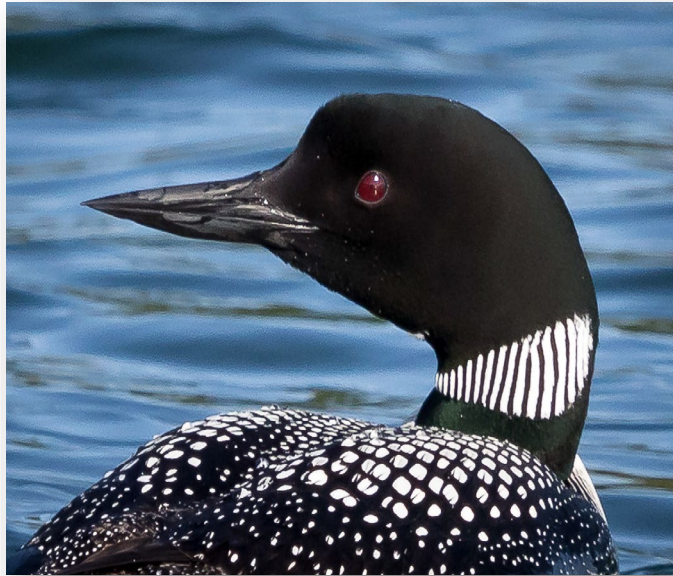


Annie Knight
Conservation Specialist &
Grants Manager
Northern Waters Land Trust

**Preserving
Your Property:
Conservation Easements**



Three Methods of Conservation



Fee Title Acquisitions



Conservation Easements



Community Outreach





Perpetuity

A really, long time

Conservation Easements

Definition

A voluntary legal agreement between a landowner and a qualifying conservation organization that perpetually limits uses of the land to protect its conservation values.





Conservation Easement – 200 ft.

Shoreline _____ 100 ft. _____ 200 ft. _____



Objectives: No development on the 200 feet and retention of open space



Conservation Easements

The Practicalities

**Initial conversations
with landowner,
determine goals,
site evaluation for
program eligibility**

**Gather information,
draft documents,
secure approval,
habitat
management plans**

**Finalize
conservation
easement**

**Land is protected
forever!**





Conservation Easement – 200 ft.

Shoreline _____ 100 ft. _____ 200 ft. _____



Objectives: No development on the 200 feet and retention of open space



Conservation Easements

200 ft. lakeshore – capable of development/sale – full mkt. value per appraisal	\$ 450,000
Appraised value after permanent easement (land remains undeveloped in perpetuity)	(150,000)
<u>Result: “Conservation Value”</u> \$300,000 compensation or charitable tax deduction if donated	<u>\$300,000</u>



Conservation Easements

Donate

Conservation
Easement
may be donated

Sell

Conservation
Easement
may be sold

Mix

Or part sale
and part gift



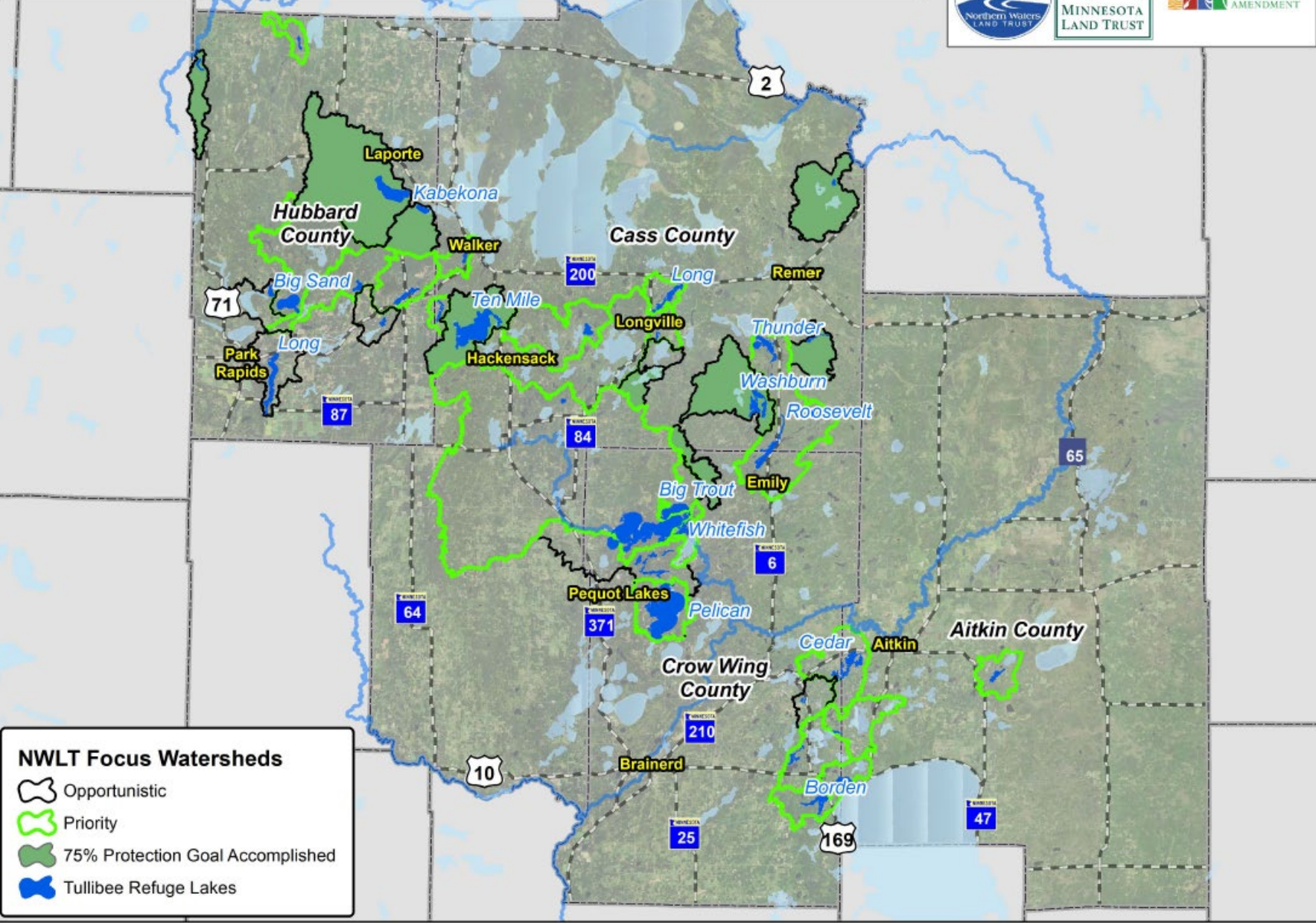


Conservation Easements

**Must have a
Conservation Purpose**



Fisheries Habitat Protection on Strategic North Central Lakes: Priority tullibee refuge watersheds

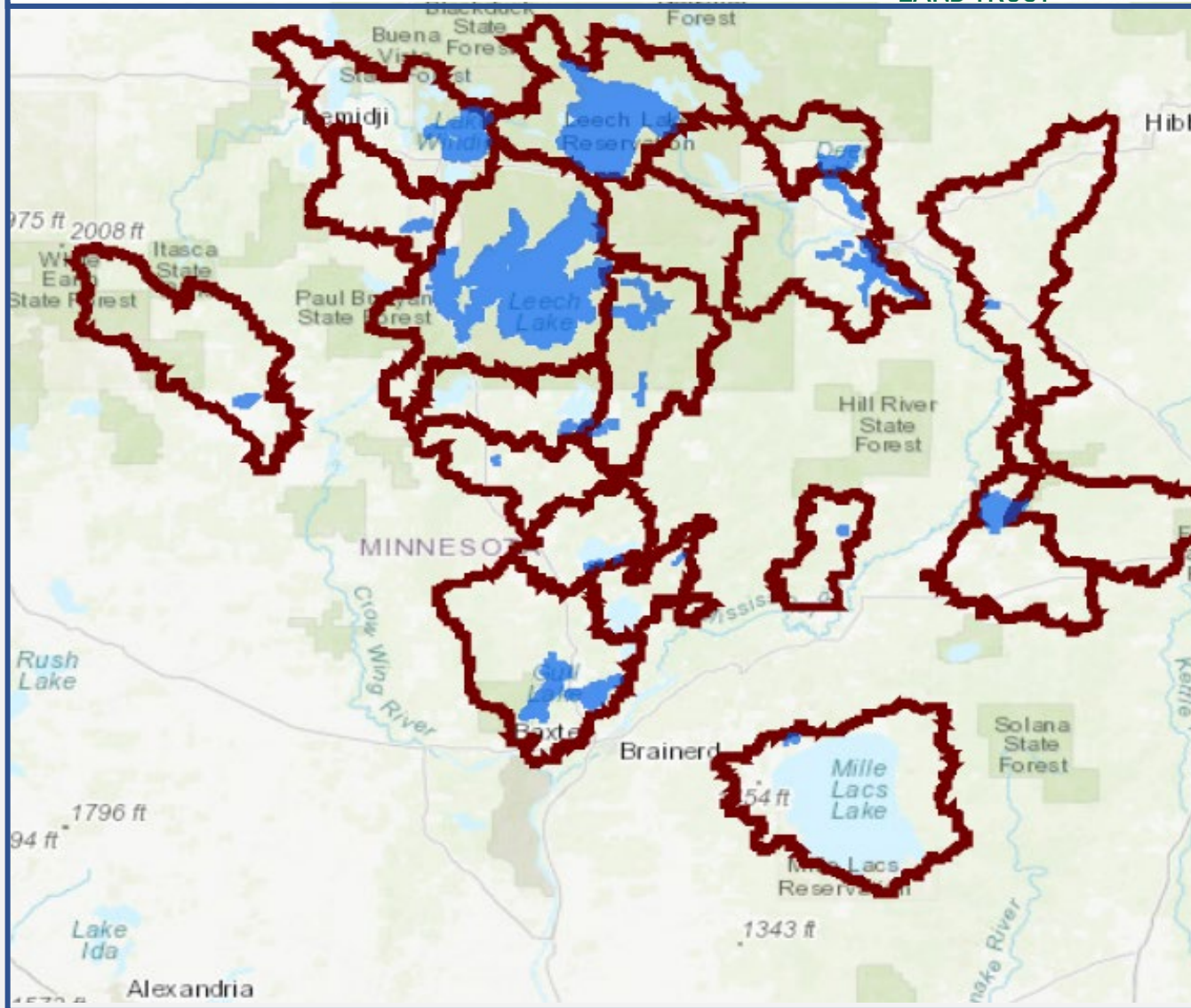


Land Protection Program, since 2014:

- \$23 million in grant funding received
- More than 6,000 acres protected so far
- Accepting applications through July 31, 2023



Protecting Minnesota's Lakes of Outstanding Biological Significance, Priority Lakes & Watersheds



New Land Protection Program:

- \$5 million received in grant funding
- 158 acres and 7,392 feet of shoreline protected so far
- Accepting applications through July 31, 2023





Interested in learning more
about land protection?

Please reach out to us!

AnnieK@nwlt-mn.org
(218)547-4510





Elizabeth Mboutchom

Director of Education &
Development

Northern Waters Land Trust

Ways to Support
Northern Waters
Land Trust



Funding & Strategy

Funding Sources

Outdoor Heritage Fund Grants

- Restricted to specific parcels for protection

Other special purpose funds

- Contract work: DNR, SWCD, MLT
- Project Grants

Donations

- Fund General Operations
- Outreach & Education

Key Strategy

Collaboration with Local Partners

- Lake Associations; Wildlife Groups
- SWCDs; Mn DNR
- Non-profit organizations



Ways to Support the Conservation Work of NWLT

Tax Savvy Ways to Give

Gifts of Property

Cabin or Forested Land

(assuming no heirs or heirs not interested)

- Bequest to NWLT (avoids any estate tax)
- Lifetime charitable gift (income tax deduction for full value)
- Charitable gift during lifetime with reserved lifetime use
- Sell portion to a third party; charitable gift a portion to NWLT



Tax Savvy Ways to Give

QCDs

Donate directly from your IRA

- Counts toward annual Required Minimum Distribution (RMD)
- Avoids IRA taxable income; more valuable than itemizing a charitable contribution

DAFs

Make donations through a Donor-Advised Fund charitable investment account

Stocks

- Deduct full value
- Avoids capital gain on appreciation



Questions?



Thanks for attending!



Contact Information

www.NorthernWatersLandTrust.org

Presenters

Andy Biebl

AndyBiebl@gmail.com

Laura J. Hansen

Laura@breenandperson.com

Annie Knight

AnnieK@nwlt-mn.org

Northern Waters Land Trust

Conservation Easements - Annie Knight

AnnieK@nwlt-mn.org

Donor Inquiries - Elizabeth Mboutchom

ElizabethM@nwlt-mn.org



Northern Waters Land Trust

- Preserving the lands & waters you love -

Cabin Succession Planning Workshop

June 2023

