

Property Ownership: Estate Planning

by Marsha A. Goetting, Ph.D., CFP®, CFCS, Professor and Extension Family Economics Specialist, Montana State University-Bozeman

Describes the three main forms of property ownership and provides real-life examples of estate settlement for each.

MT198907HR Revised 11/19

TITLE IS THE MANNER IN WHICH BOTH REAL

and personal property is owned. Title may be proven by certificate, deed, bill of sale, contract or other document.

A title is more than a piece of paper conveying ownership of a tractor, 100 acres of land, an automobile, a house or safe deposit box. It isn't something to be stuck in a drawer and forgotten. Rather, a title is an important part of a total estate plan. In fact, a will cannot be constructed separate from the titles involved and the information on them.

Titles can affect how property is transferred, who will receive it (with or without a will), and the eventual costs of estate settlement and taxes. All of these results depend on the way the property is owned. This MontGuide describes in general three basic forms of property ownership typical to Montana families: **sole ownership**, **joint tenancy**, and **tenancy in common**.

Types of Property

There are two basic types of property – real and personal.

- **Real property** is land and whatever is erected, growing on or affixed to it. Examples of real property include fences, buildings, water systems (unless removable), mineral deposits and standing uncut timber.
- **Personal property** refers to assets whose ownership arises either out of physical possession of the property, or as the result of a document showing ownership.

In Montana, all property except real property is personal property. Examples of personal property include livestock, machinery, stored grain, stocks and bonds, checking and savings accounts, automobiles and other transportation and recreational vehicles.

Forms of Property Ownership

Sole Ownership – Sole ownership of property is characterized by the fact that it is owned by a single individual. Except for some legal restraints such as maintaining a public nuisance, infringing on the rights of others, zoning restrictions, and the interests of a surviving spouse, a sole owner may generally do as he or she pleases with the property during his or her lifetime, and may, by

writing a will, designate its distribution after his or her death. If the sole owner does not write a will, the property is distributed according to the Montana law of intestate succession. An interactive Web site illustrating how a deceased person's estate is distributed when a Montanan passes away without a will is at www.montana.edu/dyingwithoutawill. A CD containing the same information can be obtained by sending a request to:

Extension Economics
P.O. Box 172800
Bozeman, Montana 59717
email: goetting@montana.edu

Or, order online at www.montana.edu/dyingwithoutawill/ordercd.html.

Any solely owned real and personal property held at death will be included in the gross estate for the determination of federal estate taxes. If your total estate is under \$11.4 million in 2019 (adjusted annually for inflation) there is no federal estate tax. Usually solely owned property goes through probate to clear the title for heirs unless the owner filed a transfer-on-death deed, a made payable-on-death (POD) designation, or transfer-on-death registration (TOD).

Generally, a solely owned safe deposit box can be opened by the personal representative named in the will in the presence of a bank officer for the purposes of making an inventory of the box and removal of an original will.

Checks signed by the decedent that are still outstanding at death are generally paid in the normal course of check clearing, unless there is a significant amount of time between the date of death and the deposit of the check into the system. Typically the decedent's checking accounts are closed as soon as possible after a personal representative has been appointed. The balances of the accounts are transferred to a new account opened in the name of the estate.

Money in a savings or checking account cannot be removed by a personal representative until he or she has been appointed by the court. Once the letter of appointment has been received, the personal representative can remove the money and distribute it to the devisees named in the will or heirs under the Montana law of intestate succession.

Co-Ownership – Co-ownership of property exists when two or more persons hold legal title to the property. There are two types of co-ownership: **tenancy in common** and **joint tenancy**. Community property and tenants by the entirety are not recognized as a legal form of ownership in Montana.

Tenancy in Common – With this method of ownership, two or more persons hold undivided interests in the same property with no right of survivorship for the surviving tenant in common. “Undivided interest” means they each own a part of the total value. For example, one tenant in common cannot claim to own the valuable section of land with an oil well and claim the worthless section with sagebrush belongs to the other tenant in common. Each tenant in common has the right to transfer his or her proportional share by selling it, giving it away, or by transferring it to persons of his or her choice by a written will.

A tenancy in common in real estate is generally created by the words “to *A* and *B*” and nothing more needs to be added. If title to real estate is held by persons as tenants in common, all co-tenants have equal rights to manage and live on the property. Upon the death of a tenant in common, the interest passes to his/her heirs by the Montana law of intestate succession, or to his/her devisees (beneficiaries) by a written will.

For federal estate tax purposes, only the portion of the property owned by the deceased tenant in common is subject to tax. If your total estate is under \$11.4 million in 2019 (adjusted annually for inflation) there is no federal estate tax. The fractional share owned by a decedent is also subject to probate and settlement costs.

Example: Two brothers, Dan and Sam, own land they inherited from their parents as tenants in common. If Dan dies, his interest may pass by his written will to his wife and two children, not to Sam. If Sam dies, his interest may pass by his written will to his wife and children, not to Dan. In the event of Dan’s or Sam’s death, only the portion owned by the one who is deceased is subject to the federal estate tax. The land is valued at \$1,800,000. Thus, if Dan dies, only his half of the tenancy in common property (\$900,000) is included in his estate for federal estate computation purposes. There is no estate tax because the total estate value is under \$11.4 million (2019 figure, adjusted annually for inflation).

Joint Tenancy – Joint tenancy with right of survivorship is a form of co-ownership in which two or more persons own the same property subject to the other joint tenant’s ownership right. When a joint tenant dies, his or her economic interest automatically passes to any surviving joint tenant or tenants. Typical wording on a document to create joint tenancy would be “to *A* and *B* as joint tenants with right of survivorship and not as tenants in common.”

After a couple marry, they often place their real and personal property in joint tenancy. The reasons are varied: to prove to one another that they are as “one,” to share and

share alike, to avoid probate, or to use joint tenancy as a substitute for a written will.

Regardless of the reason, the decision to place property in joint tenancy should be made only after serious consideration has been given to the consequences of such an arrangement. A joint tenant cannot leave his or her interest to someone in a written will, nor does his interest pass to his heirs by intestacy because the joint tenancy contract has priority.

Example: Ron and his brother Don own land as joint tenants with right of survivorship. Suppose Ron dies with a will that leaves his interest in the joint tenancy property to his son, Cory.

The joint tenancy title prevails. Don receives Ron’s interest in the land as the surviving joint tenant. Cory would not inherit his father’s interest in the land, even though Ron’s written will stated he wanted the joint tenancy property to pass to his son. If Ron owned the property as a tenant in common with his brother Don, then Ron could leave his half interest in the property to his son. Cory would then own half the property and his uncle Don would own the other half.

At death, safe deposit boxes held in joint tenancy with right of survivorship in Montana can be opened by the surviving joint tenant. Checking and savings accounts can be used by the surviving joint tenant just as though the decedent were still living.

According to Montana law, contents (other than those with certificates of title such as stocks and bonds) of a safe deposit box may belong to the surviving joint tenant even if the decedent’s written will states that those items of personal property are to be distributed to other individuals. Review the institution’s safe deposit box signature card to determine what was agreed to by all parties.

Survival Requirement

A statute passed by the Montana legislature provides a method of distribution of property held in joint tenancy whenever the last joint tenant fails to survive the other by 120 hours (five days). If this should occur, or if it cannot be determined whether one survived the other by 120 hours, one half of the property is distributed to the devisees, or heirs, of one joint tenant and one half to the devisees, or heirs, of the other joint tenant.

If the joint tenancy is held by more than two people and the last tenant fails to survive the others by 120 hours or if it cannot be determined whether one survived the others by 120 hours, the property is distributed equally among the estates of each joint tenant.

This statute applies unless the decedents have written wills that contain language dealing explicitly with deaths in a common disaster, or requiring that the beneficiary survive the testator (person who makes a written will), or survive the testator for a stated period, before receiving an inheritance under the will.

The following examples illustrate how property is distributed if joint tenants fail to survive one another by 120 hours (five days) and they die without writing a will.

Example A: Parent and child – John and his father own property as joint tenants with right of survivorship. If they die within five days of one another, the property is divided one-half to John's wife because she is his survivor, and the other one-half to John's mother because she is the father's closest survivor.

Example B: Married couple – Mary and Steve were deeded a ranch as a wedding present by her parents. Mary and Steve placed the ranch title in joint tenancy with right of survivorship. If they are killed in an automobile accident, neither surviving five days, the property is divided one-half to Mary's parents and one-half to Steve's parents. Steve's parents are not interested in ranching and would probably sell their half. Mary's parents want to maintain the ranch for another daughter, but would have to buy the other half from Steve's parents.

If a joint tenant survives beyond the five day limit, then the property becomes his or hers, and upon death, a part of the estate for inheritance purposes. Property is then distributed according to the person's written will or, if no will has been written, by the Montana law of intestacy.

In Example A, if John had survived his father by six days and then died, all property would first pass to John as surviving joint tenant and then to John's wife as his closest survivor. The mother would receive nothing. However, if the father had survived his son by six days and then died, all property would go to the mother. John's wife would receive nothing.

In Example B, if Mary had survived Steve for six days and died, then the ranch would have gone completely to her parents. On the other hand, if Steve had survived Mary for six days and died, then the ranch would have gone completely to his parents.

In many cases, chance is a major factor in determining whose relatives will receive an estate held in joint tenancy. The consequences of the decision to rely on joint ownership alone without bothering with written wills can be quite severe. Joint tenancy is not a substitute for a written will.

Joint Tenancy Consequences

Is it best for a parent and children, a brother and sister, or unrelated individuals to hold title to real or personal property such as stocks and bonds, checking and savings accounts, homes or ranches, in joint tenancy with right of survivorship?

The answer is not a simple "yes" or "no." What is best for one family or situation may not be right for another family or situation.

Joint ownership with the right of survivorship has many consequences – some considered advantages, others disadvantages.

1. By holding property in joint tenancy, a family could be disinherited.

Example A: A father and son had farmed together for 15 years with all of the farm land in joint tenancy. They assumed that, upon the death of the father, the son would become the sole owner. But the unexpected happened – the son was killed in an automobile accident leaving a wife and five children. The son's family was almost totally "disinherited" because the joint tenancy property passed to the father as survivor.

Example B: Two brothers, Roger and Paul, own land as joint tenants with right of survivorship. If Roger dies, Paul will receive Roger's interest in the land. Roger's wife and children would not inherit it because the surviving joint tenant would be Paul. If Roger left a written will stating that his property was to go to his wife, the joint tenancy deed would have priority over the written will. His wife would not inherit his interest. Once Roger and Paul became aware of the consequences of joint tenancy with right of survivorship they changed the title to the land naming them as tenants in common.

As these examples indicate, those considering joint tenancy should carefully examine all of the possibilities and assure themselves that joint tenancy would be a satisfactory arrangement regardless of who died first.

2. If a parent holds title to real property in joint tenancy with his or her children, the parent loses control over his or her property. The parents can sell their interest, but it's doubtful anyone would buy it under such circumstances.

Example: Jane owns her own home. She was told by a friend that she could save estate taxes by placing the property in joint tenancy with her daughter. Jane now wants to sell the home because she is going to remarry and move to Florida. "For her mother's own good," Jane's daughter refuses to sell. Jane was unaware that her daughter would not have to pay an inheritance tax because the Montana legislature eliminated it in 2001. The estate would not have to pay an estate tax, either, because its value is under \$11.4 million (2019, adjusted annually for inflation). Consequently, Jane's reasons for placing the property in joint tenancy were the result of misinformation.

3. Hard feelings may develop if only one child's name is included on the property deed and other children are excluded. Upon the death of the parent, the property passes to the surviving joint tenant. The other children are "disinherited."

Example: Mrs. Jones placed title to the ranch with her son, requesting that after she's "gone" he share it with his sister. After his mother's death the son refused to give any of the property to his sister. Legally he is not required to do so.

4. Parents who think they can avoid federal estate taxes by placing titles, checking and savings accounts, etc. in joint tenancy with their children are misinformed.

The total amount will be included in the parent's gross estate, unless the children can prove that they contributed funds to the joint tenancy formation.

Example: Nellie put her savings accounts totaling \$100,000 in joint tenancy with her grandchildren, thinking she could avoid having the account subject to federal estate taxes. She was mistaken. The total was included in her gross estate. However, because Nellie's total estate was under \$11.4 million (2019), no federal estate tax was due.

5. Often an elderly person puts his or her checking account in joint tenancy with a relative or friend so that the person may write checks to pay bills, purchase food and clothing, or to pay funeral expenses after the elderly person has died. However, upon the death of the elderly person, the surviving joint tenant may claim the account as his or her own.

This can disinherit others, perhaps contrary to the wishes of the deceased. Many lawsuits concerning estates have arisen out of such circumstances. A durable financial power of attorney, or authorization on the signature card for someone other than the owner of the account to sign checks, may be preferable to joint tenancy with right of survivorship.

6. Joint ownership may be useful in passing property such as an automobile or home to the surviving owner conveniently and quickly.

7. A joint bank account with the right of survivorship may provide funds immediately for the maintenance of joint survivors.

8. The titles to property held in joint tenancy can be terminated by the personal representative or an attorney.

Joint tenancy property does not go through probate. Although the real property transfers automatically, there is a legal procedure provided by the Montana legislature to update the public record to show the new ownership. This update needs to be recorded with the clerk and recorder in the county where the property is located. See MontGuide, *How to transfer Real Property Owned in a Joint Tenancy or in a Life Estate Without Probate* (MT201606HR).

9. Generally (except between spouses), a gift tax liability arises when a joint tenancy is created with the separate funds of one of the joint tenants, and the other joint tenant contributes none or less than a proportionate share of the consideration.



To order additional publications, please contact your county or reservation MSU Extension office, visit our online catalog at <https://store.msuextension.org> or e-mail orderpubs@montana.edu

Copyright © 2019 MSU Extension

We encourage the use of this document for nonprofit educational purposes. This document may be reprinted for nonprofit educational purposes if no endorsement of a commercial product, service or company is stated or implied, and if appropriate credit is given to the author and MSU Extension. To use these documents in electronic formats, permission must be sought from the Extension Communications Coordinator, 115 Culbertson Hall, Montana State University, Bozeman, MT 59717; E-mail: publications@montana.edu

The U.S. Department of Agriculture (USDA), Montana State University and Montana State University Extension prohibit discrimination in all of their programs and activities on the basis of race, color, national origin, gender, religion, age, disability, political beliefs, sexual orientation, and marital and family status. Issued in furtherance of cooperative extension work in agriculture and home economics, acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture, Cody Stone, Director of Extension, Montana State University, Bozeman, MT 59717.

However, when a joint tenancy bank account is opened, another rule applies. When the noncontributing joint tenant makes a withdrawal of more than his or her portion of the contribution, a gift occurs at the time of withdrawal. A gift does not have to be reported until the amount exceeds \$15,000. For more information, see *Gifting: A Property Transfer Tool of Estate Planning* (MT199105HR).

Property Ownership and You

How many evidences of title do you now have, including everything from land (deed, bill of sale) to snow-mobiles? Where are they kept? Whose names are on the documents? Perhaps now is a good time to gather all those titles from their various hiding places and examine them in the light of your present and future estate planning goals.

Examine your circumstances carefully. Whether to continue to hold property presently owned in joint tenancy with right of survivorship or tenancy in common or sole ownership, or how to acquire additional property requires careful consideration. Changes in tax laws, property laws and property values, as well as other factors, affect such a decision.

Will your real and personal property be distributed according to your wishes if you die without a will? If you are not familiar with the Montana law of intestate succession, ask for the Montguide, *Dying Without a Will in Montana: Who Gets Your Property* (MT198908 HR), which provides an explanation. The Montana Multiple-Party Accounts Act is described in the Montguide, *Non-Probate Transfers* (MT199509HR).

Disclaimer

This publication is not intended to be a substitute for legal advice. Rather, it is designed to help families become better acquainted with some of the devices used in estate planning and to create an awareness of the need for such planning. Future changes in laws cannot be predicted, and statements in this MontGuide are based solely upon those laws in force on the date of publication.

Acknowledgment

The Business, Estates, Trusts, Tax and Real Property Law Section of the State Bar of Montana has approved this MontGuide and recommends its reading by all Montanans.