

# Tenancy-in-common: A versatile estate planning tool

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If you hold significant real estate investments, tenancy-in-common ("TIC") ownership can be a powerful, versatile estate planning tool. A TIC interest is an undivided fractional interest in property. The property isn't split into separate parcels. Rather, each TIC owner has the right to use and enjoy the entire property.

## TIC in action

An individual TIC can't sell or lease the underlying property, or take other actions with respect to the property as a whole, without the other owners' consent. But each owner has the right to sell, mortgage or transfer his or her TIC interest. This includes the right to transfer the interest, either directly or in trust, to his or her heirs or other beneficiaries.

Someone who buys or inherits a TIC interest takes over the original owner's undivided fractional interest in the property, sharing ownership with the other tenants in common. Each TIC interest holder has a right of "partition" (i.e., if a dispute arises among the co-owners over the property's management, an owner can petition a court to divide the property into separate parcels or to force a sale and divide the proceeds among the co-owners).

## TIC and estate planning

Here are a few ways TIC interests can be used to accomplish your estate planning goals:

**Distributing your wealth.** Dividing real estate among your heirs — your children, for example — can be a challenge. If you transfer real estate to them as joint tenants, their options for dealing with the property individually will be limited. What if one child wants to hold on to the real estate, but the other two want to cash out? Transferring TIC interests can avoid disputes by giving each heir the power to dispose of his or her interest without forcing a sale of the underlying property.

**Reducing gift and estate taxes.** Fractional interests generally are less marketable than whole interests. In addition, because an owner must share management with several co-owners, fractional interests provide less control. Accordingly, TIC interests may enjoy valuation discounts for gift and estate tax purposes.

## **Get an appraisal**

If you're considering using TIC interests in your estate plan, it's critical to obtain an appraisal to support your valuation of these interests. Appraising a TIC interest is a two-step process. It begins with an appraisal of the real estate as a whole. Then an appraisal of the fractional interests follows. In some cases, it may be desirable to use two appraisers: a real estate appraiser for the underlying property and a business valuation expert to quantify and support any valuation discounts you claim. Please contact us with questions.

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