



CESTNICK

TAX MATTERS

Some questions every cottage owner needs to answer

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It's Victoria Day weekend once again. Our family's favourite time of the year. Why? We're heading to the cottage for the first extended stay since Thanksgiving. Oh, make no mistake, it's going to be a lot of work. My wife, Carolyn, will be in the gardens all weekend exercising her botanical skills. If you want to drop by, we'd love that. But here's what Carolyn suggests: If you drop by, knock on the door. If no one answers, start pulling weeds.

There is, perhaps, no asset or heirloom that comes with more memories, and emotion, than the cottage. It's that emotion that can cause otherwise rational people to do, or say, irrational things. This is why the decision about how to pass on the cottage can be so tough.

Every owner of a vacation property (cottage, chalet, cabin, etc.) needs to eventually answer six questions: 1) Who wants the property? 2) How will costs be covered? 3) Can the family work

together? 4) What are the rules for sharing the property? 5) How do we transfer it? 6) When do we transfer it?

If you can figure these things out, your cottage could successfully make it through multiple generations while continuing to create happy memories along the way. Today, I want to talk about the first three questions.

WHO WANTS THE COTTAGE?

It's important to first understand which of your family members are interested in using the cottage on a continuing basis when you're not around any longer. This is a conversation you should have with them, as opposed to making assumptions about how they feel about the vacation property. I think of my friends, Jack and Wendy. They have three kids, all adults now, who grew up with the cottage.

Jack and Wendy assumed that all three children would want to own the Ontario

property together one day. They were surprised when their oldest daughter, who is married and lives in British Columbia, told her parents that she didn't care to be included as an owner since she wouldn't be using the cottage much and planned on buying a cabin on a lake about an hour from where she lives.

Cottage succession planning starts by asking who is interested in being an owner. If no one is interested, the most common approach is to sell the cottage; it's just a matter of determining the right time to do that – during your lifetime, or after you're gone.

HOW WILL COSTS BE COVERED?

What does it cost to maintain your cottage on an annual basis? It's a good idea to get a handle on this figure. It all adds up: property taxes, insurance, hydro, gas or propane, repairs, maintenance, landscaping, boat storage and repairs, furnishings and capital improvements. When you're no longer around, will the next generation be able to afford all this?

What if only one of the children can afford the costs of upkeep? If you have the means, you might consider leaving a certain amount of money in trust for the kids to use to cover all or some of the costs. Also, consider a life insurance policy, the proceeds of which could be paid into a trust after you're gone, to help look after the cottage. For example, if you had a \$500,000 life insurance policy that pays out on your death, a trust could be named as the beneficiary of that policy. The \$500,000 might earn, for example, 4 per cent annually, or \$20,000 of income. That income

could be taxed in the hands of various family members (splitting income among them), potentially resulting in lower overall taxes on the \$20,000, and the after-tax funds could be used to cover costs related to the cottage.

If the costs of the cottage can't be managed by the kids, there may be no other option than to sell it.

CAN THE FAMILY WORK TOGETHER?

If you've figured out who in the family is interested in owning the cottage, and who will bear the costs of upkeep, a critical question is this: Can your children work together to co-own or share the cottage? This question is more about their capacity to get along, than about the logistics of figuring out who can use the cottage when, or who will make the repairs. These logistical things can generally be figured out if the relationship between the heirs is solid.

If the kids care for each other, and are willing to be reasonable in how they work with each other to share the property, there's a good chance your cottage succession planning will succeed. In some cases, however, selling the cottage may be the best way to keep harmony in the family.

More on this topic next time.

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