

Passing on the Family Cottage

The following is an excerpt from MoneyTalk Life article: *Can Kids afford to Inherit the Family Cottage* please see following link for full article: <https://tdknowledgecentre.com/public/common/documentPreview.jsp?itemCode=F18A6D1CDE4B>

There is something truly relaxing about being in the beautiful BC outdoors. Bringing family and friends together, making memories and creating a legacy for loved ones are just a few perks of owning a recreational property. Because of these memories and the rapid price appreciation, it is important to understand that keeping the cabin in the family is not always a simple task.

Do the kids want it? It is one thing to enjoy time at the parents' cottage; it is completely another to take on the time and financial responsibility of owning it oneself. We recommend discussing openly with your family as to your and their wishes for the property.

One sibling could be as devoted to the cottage as their parents were and wouldn't think of giving it up, while another may have perfectly sensible reasons for selling the cottage, and a third may love the place but not have the money or the time to give it the love it needs. If this is the case, consideration should go into how to equalize the transfer.

If your children have a keen interest to take it over, we

suggest sharing what typical costs look like as they may under-estimate.

What will it cost to transfer? Over time, many cabins have appreciated significantly in value. When the time comes to look at passing the cabin to the kids, whether you are alive, or as a bequest in your Will, there can be substantial capital gains tax.

A few ideas:

- 1. Spread it Out:** By selling the cottage to your children and receiving a promissory note (an I.O.U.) from them for the price of the cottage, you may be allowed to spread your payable capital gains tax over 5 years. The note needs to be worded in such a way that you will collect on the debt/I.O.U. over a 5-year span, then the CRA will allow you to spread out the tax payable over that time. Your children don't actually need to pay you for the cottage, and you can forgive the debt in the will, meaning that the cottage will be owned by your children with no further taxes owing.
- 2. Gift It Now:** Another option is giving the cabin to your kids right now. That would trigger a capital gain and you would have to pay the capital gains tax up until the time you gave it to them. However if property values continue to rise, you'll be transferring future growth and capital gains tax to them. One of the risks is that if property values fall,

you might be paying more now than you need to. Also, if your kids own the cabin before you die – they, or someone involved with them (creditors, ex-spouses) may be able to make a claim on the asset.

- 3. Life Insurance Can Help:** Buying life insurance can provide needed cash to pay capital gains taxes and keep the cottage in the family. You can purchase life insurance called 'joint last to die' on the second death. It can be relatively economical, and your heirs will receive the benefit when the tax liability is due.
- 4. Make it a Primary Residence:** In some cases your cabin might be worth more than your family home. If that's the case, you may wish to switch your primary residence to your cabin. Don't worry, you don't actually have to move to the cabin; as long as you reside in it for a part of the year, CRA will allow you to use it as your principal residence for tax purposes. The switch will trigger capital gains tax on your old primary residence, but it may save you some money in the long run.

These are just a few planning considerations to think about as you look to your cabin and the next generations. As always, it pays to plan in advance and we recommend consulting with a tax professional to help the transition be as seamless as possible.

Until next time...
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