Trending News

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In This Issue:

Keeping a Cottage in the Family

For many Canadians, a cottage is more than a vacation property. It's a space for quality time with family, the centre of holiday gatherings, and home to generations of childhood memories. Whether it's at a rustic cabin or a luxury retreat, there is something magical about long afternoons on the dock or a summer evening spent around a bonfire (even better if you hear a loon call).

As the years pass and families grow, cottage life can become more complicated. What was once one family with a few kids may now be a multigenerational situation with several adult kids, their spouses and children of their own. Sleeping cabins may be built, bunk beds added or cottage sharing schedules developed – whatever works for your family. But what happens when the actual ownership of the cottage undergoes change? This can not only be an emotionally-charged event for families but in many cases, a financial challenge as well.

Successive changes to Canadian tax laws over time have created significant obstacles in cottage succession planning, whether the transfer involves inheriting, buying or selling a cottage property. If the cottage is not your primary residence, capital gains may be substantial. This is particularly true of family cottages that were purchased decades ago and have since seen extraordinary appreciations in value. If your family is facing this dilemma, we may be able to help.

Strategic use of insurance

Oftentimes, cottages are bequeathed to the owner's heir(s) through their will. In anticipation of capital gains, some cottage owners take out a significant life insurance policy naming the individual slated to inherit the cottage as beneficiary. Once the original cottage owner has died, the person inheriting the cottage will receive a substantial lump sum insurance payment intended to pay off all or most of the capital gains associated with the property they have inherited.

All insurance products and services are offered by life licensed advisors of TD Waterhouse Insurance Services Inc., a member of TD Bank Group.

Holding a cottage in a family trust

Another option for transferring cottage ownership in a tax-effective manner involves creating a living trust (also called an Inter Vivos trust). In this scenario, cottage ownership is moved into a shared family trust prior to the passing of the original owner(s). When the cottage owner passes away, ownership of the property may immediately default to the others in the living trust. This does not eliminate taxes completely, but it can greatly reduce or delay them. Ask us about this and other family trust options.

Doing what's best for your family

Cottage succession planning is complex and never one-size-fits-all, so a personalized strategy is critical. Finances play a major role in this strategy but perhaps most importantly, you could start the process with open dialogue between family members. A cottage owner may assume that all three of their children want the cottage when in reality, only two of them do (and, perhaps only one can afford to maintain it). Before figuring out how to transfer the family cottage, determine who wants it, who you want to leave it to, and whether or not it's financially possible for them to take over ownership. Once this is determined, we can work together to develop a strategy to achieve your vision and keep the family cottage in the family. ■

Spring Cleaning Your Family Budget

As springtime slowly makes its way across Canada, many of us are feeling inspired to get organized for the months ahead. It's not uncommon for families to take on household projects as they tackle 'spring cleaning' – making small home repairs, purging items you no longer need or giving your house a deep clean after a long winter. It's a great way to start the season feeling positive and proactive – but why stop at cleaning and organizing your house? Spring is the perfect time to make improvements to your family budget. Here's how to get started.

Review your expenses (and your spending)

It's important to remember that fixed expenses and spending habits are two very different things. A fixed expense is the same each month – for example, a fixed-rate mortgage payment or the premium on an insurance policy. A variable expense is more complicated. It may be a 'want', such as concert tickets, or a regular monthly expense such as groceries.

While groceries are a need, the cost is variable as it depends on your spending habits (what you buy and where you buy it). When creating a budget, use an average for variable monthly expenses like groceries, utilities and gas for your vehicle.

Consider using a financial app to stay on top of upcoming bills and expenses, track your spending habits and encourage you to stay on budget.

Once you have a clear idea of where your money is going each month, you'll know the minimum amount needed to cover your needs (housing, food and utilities, for example). It will also give you a fairly good idea of how much you're spending on wants, which creates opportunity to prioritize, reduce and possibly save. You have to pay your mortgage every month, but that morning latte is a choice you make. When you look at each expense as part of a larger financial picture, you can decide what makes the cut!

Make small improvements that add up

There are a lot of ways to improve a family budget without making dramatic changes to your lifestyle. If you've identified areas of overspending, create personal limits that you're comfortable with based on your income. You can save on groceries by planning meals around what's on special each week. If your Internet, phone or cable bill seems high, call your service providers and negotiate a better deal. If you buy your lunch at work every day, start packing one a few days per week. Buy household items in bulk (toiletries, pet food, diapers, etc) to reduce the cost-per-use. These simple changes can add up to more money in your wallet at the end of the month.

Be realistic with your goals

A budget is meant to help you and should not feel like a punishment. If you're tempted to dramatically reduce your variable spending by completely eliminating things like entertainment, you may set yourself up for failure. Instead, be realistic and create a plan that reflects your income while honouring your lifestyle preferences. It's ok to have a little fun! Just be sure you have a buffer for unexpected expenses or spending overages. Pay your bills and contribute to investments first, but leave yourself room to play. ■

Financial Literacy for Children

As parents, we teach our children something new every day. Sometimes, these lessons are deliberate – how to tie your shoes, how to safely cross the street, or why it's important to brush your teeth before bed. Other times, children learn by example – perhaps one of the more formidable challenges of parenthood!

As we teach our kids morals and values, we also strive to give them the skills they need to become successful adults. Money is still a taboo subject in many families, but it doesn't need to be. Here are a few ways to demonstrate good financial habits and actively teach financial literacy to children.

Philanthropy is another concept that can teach children about the value of financial literacy and can be introduced at any age – consider encouraging your children to make a small donation to a charity of their choice.

Start with savings

It's common for kids to use a piggy bank, but you can take the concept a step further by helping your child open a bank account. An early introduction to banking will help teach them about saving, spending and even how to budget. If your child receives an allowance, consider transferring the money directly into their account or helping them deposit it each month. Monetary gifts can be spent or saved – discuss these options with your child and encourage them to think about how they want to use their money. Children can even have their own debit cards (though we recommend keeping them in mom or dad's wallet). By getting children into the habit of making financial decisions and living with the consequences, you are teaching fiscal responsibility and independence.

Teach the difference between wants vs. needs

An important part of financial literacy is understanding the difference between something you want and something you need, and then making choices that are within your means. Children are generally focused on wants (as their needs are taken care of), but you can illustrate the difference from an early age. If they ask for a new toy, remind them that it's something they want rather than need.

If they have a bank account, give them the option of purchasing it themself. Knowing how much money they have saved and weighing that against the cost of a purchase can be a great learning experience

Introduce bill payments and credit

As your children grow into tweens and teens, understanding bills and credit becomes critical. Some teenagers are capable of paying their own cell phone bill with income from a part-time job or other savings, and it's great to teach this responsibility while they're still living under your roof. You may want to lend your teen some money and have them repay it on a schedule (with or without interest). If you're comfortable with them having a low-limit credit card, this is another option – just be sure to get a copy of each statement and ensure that the balance is paid off each month, as a tip. The point is to create *good* credit! ■