A PLAN TO PASS ON THE CHERISHED FAMILY RECREATIONAL PROPERTY

By Tanya Hammond

A beautiful three season cottage on the Rideau, a quaint cabin nestled in the woods in the heart of the Thousand Islands, a rustic hunting camp with great four wheeler trails with easy access to Charleston Lake, or an expansive vacation home on the St. Lawrence…. Whatever the location, the family recreational property is a cherished place with fond memories and strong family ties.

You worked hard your entire life to make this dream a reality. Your stress seems to fade away and you seem to breathe easier as soon as you get there. You've spent endless summers with your family, sharing laughs around the bonfire and spirited stories from years gone by.

Now your kids have kids of their own and they seem to spend more time enjoying the property than you do. You're happy to see it used and you know they love the place as much as you do. You know the day will come when you proudly pass the beloved property down to the next generation. But…Have you given it any more thought than just that?

Do all your children and their spouses want the property?

Can all of them afford the maintenance and upkeep of it?

Do you want to treat everyone equally?

These are questions that are extremely personal and emotional, and should be not only considered, but discussed with your children. Other things to consider, which can in fact be the most challenging obstacles when succession planning, are the Capital Gains Tax Implications, Probate Fees and Land Transfer Taxes. Yes, that sounds very technical and boring, and not nearly as thought provoking when discussing a topic so close to the heart, but in reality it is equally important to consider.

The simple truth is that Capital Gains Tax must be paid when the recreational property is sold or transferred, during your lifetime or even after your death, and it can cost tens of thousands of dollars. A financial advisor can assist you with reviewing your assets, calculating the potential income tax liabilities, as well as helping you find a solution that can help reduce these taxes.

A possibility that many do not think of is transferring the property ownership in stages while still living, as opposed to gifting it all at once at the time of your death. For example, if you transfer 20% each year for five years, the Capital Gains Tax in each year will be much less. It is wise to note that transferring it during your lifetime can effect your Old Age Security and thus the government can start clawing back the OAS depending on income amounts. Another possibility is joint tenancy with your child, with the right of survivorship. This means that on death of one owner, the property automatically transfers into the hands of the joint owner, thus bypassing the estate and avoiding probate.

On the other hand, if you leave the property in your will, the Capital Gains Tax is deferred until you die, but the actual amount paid may be more since the property fair market value will probably increase. That being said, the tax at death could be paid from a variety of sources, such as life insurance policies, or savings and investments for instance. In fact, life insurance is often the most cost-effective solution to cover the cost of Capital Gains Taxes upon your death. Of course, professional counsel should be sought before implementing any of these scenarios to prevent any unintended outcomes. After all, you want peace of mind so you can relax and relish the days you still have to spend at your own piece of paradise and enjoy the call of the loon as it echoes across the lake. LH

EDITOR'S NOTE: This article was written by Tanya Hammond, Insurance Broker & Financial Advisor with Eastern Ontario Financial Services, for the sole purpose of presenting general information only. It is not a solicitation to buy or sell any product or service. For more information, please contact your advisor for specific advice about your circumstances.