



THE FAMILY COTTAGE/CABIN:

Binding the Family?

Summer is a time for leisurely pursuits and this year, given the current challenges of COVID-19, most of us will be spending more time closer to home. Nothing may feel more Canadian than family time spent at a cottage or cabin. A seasonal family property can create many happy memories, but it can also be a source of much angst down the road. Have you given thought to how the property may eventually be passed along? If you wish the property to remain in the family for generations to come, perhaps this may be an opportune time to begin thinking about its future.

Here are three questions to ask today that can start the thought process — and potentially uncover challenges — as you plan for the succession of a family cottage or cabin:

WHO WILL INHERIT THE PROPERTY?

Many lawyers suggest that the family cottage or cabin can be one of the most divisive aspects of an estate plan. The property often has a strong emotional attachment for those

family members who have spent many summers growing up there. As such, there is the likely potential for family fights, even between siblings who have harmonious relationships. If you have multiple children, will you leave the property to them all? Or, perhaps, not all of the children will want the cottage — in which case, if you wish to equalize your estate for all beneficiaries, how will you manage this?

WILL THERE BE FUTURE TAX LIABILITIES?

Unless the cottage is designated as your principal residence, there will likely be tax consequences if the value of the property has increased over time. This is because it will be deemed to have been sold just prior to death (unless it passes to a surviving spouse) and the estate will be responsible for any capital gains taxes, which may be substantial. If the taxes are not adequately planned for to be covered within the estate, beneficiaries have sometimes been forced to sell the property to cover the tax owing. There are a variety of estate planning strategies that can be built into an estate plan to help cover the tax liabilities, but planning in advance is often necessary.

HOW WILL THE PROPERTY BE MANAGED ON AN ONGOING BASIS?

If you decide to leave a property jointly to multiple children, there may be complications. Siblings may not be able to agree on how the property is shared. One sibling may live close to the property, but others may feel left out if they live on the other side of the country. There may also be disagreements on the maintenance of the property or other associated responsibilities. One adult child may love the cottage as long as he or she doesn't have to spend any money on it, while another may wish to spend money and renovate. In some cases, it may not be practical for siblings to jointly own the cottage.

WHERE TO START?

A good place to start is by having a discussion with your children to understand their wishes and vision for the property, prior to determining the best course of action within your estate plan. In the least, starting a dialogue can help to prepare your children for what may be to come as you make your plan for the future. Seek the advice of legal and tax advisors who have expertise in this area, as they will be able to provide counsel as it relates to your own situation.

With some forward planning, you can help to preserve the cottage memory as one that has bound the family together.

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