



Executive summary

Cottages often hold a lot of sentimental value to families and is the home to a lot of great memories. Many cottage owners would like to see their children and grandchildren get the same joy from the property that they did, even after they are gone. This seems like a nice sentiment but leaving it to your family is no walk in the park. There are tax implications that come with leaving a cottage to your children and if they aren't dealt with properly it can be a serious financial burden to both you and the kids.

What you need to know

There are a variety of ways to leave a family cottage to the next generation, but the following are three straightforward and cost-effective ways to do so:

1. Gift It While You Are Still Alive

This strategy may work well for you if you no longer want to use or have control over the cottage. By gifting the cottage while you are alive, you can personally deal with any capital gains associated with the sale. The tax burden would fall to you instead of your kids and they will not have to worry about a tax bill when you die. It may be prudent to consider gifting the cottage over a number of years, therefore spreading out the tax burden. It is important to remember that with this strategy, you give up control of the property. That means it could be sold by your child or become an exposed asset in the event of marriage breakdown.

2. Life Insurance

Perhaps one of the easiest ways to tackle the taxes on your cottage is to purchase a life insurance policy. The proceeds of the insurance can be allocated to deal with any taxes or expenses that arise from your death. After the life insurance deals with the tax burden, the cottage can be passed to your heirs without any great expense to them. This strategy allows you to have control of your property until you die and allows it to pass easily to your children.

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3. Just Sell It

Selling the cottage isn't even an option in many people's eyes, but sometimes it may be the best choice. People often assume their child will want the cottage when they die or if they have multiple children that they will be able to peacefully share it amongst themselves. Unfortunately, that is not always the case. Your children simply may not be interested in taking on the financial burden of running a second property and having your children share the property may be a disaster waiting to happen. It could be in the families' best interest to have the cottage sold when you die. Once the taxes and transaction expenses have been paid out of the proceeds, the remainder of the cash can be given to the children to do with what they wish.

The bottom line

Passing down a cottage is not always a smooth process. It is important to discuss with your children if they desire to own the cottage in the first place. If they do, it is essential that you work with a tax professional to ensure that your property gets handed down in the most tax effective way possible.

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