

Executive summary

Owning a cottage can be a highlight in a family's life. It is a place where your family and friends can gather to share memorable moments during a scheduled vacation. It is also a place where you all could escape to whenever you saw fit. Eventually, however, the time to transition the family cottage to the younger generation will come.

A 'little information' can be a dangerous commodity when transferring an asset, which has increased significantly in value.

Although some owners look for ways to avoid paying taxes entirely, we do not recommend taking this approach, mostly because a legal, fully, no-tax option does not exist if the plan is to disguise or hide a capital gain.

The best advice to transfer a cottage at the lowest tax rate possible is to engage an accountant and lawyer who specialize in this specific activity and with Canada Revenue Agency (CRA) rules and regulations.

What you need to know

If you attempt to skirt tax paying taxes, by placing an adult child on the title to the cottage in hopes that CRA will not notice, you may want to reconsider your approach.

Transferring ownership, if even partial ownership could trigger a "deemed-disposition" that produces a capital gain, and capital gains tax is due in tax-year in which it occurs.

Selling the cottage for a reduced amount (\$1, for example) could trigger penalties equal to the amount of the tax owed plus interest from the date the transaction occurred. In addition, the new owners will have to use the falsified purchase price (\$1, for example) as their cost basis, if and when they eventually sell or transfer the cottage. This results in double taxation for the same capital gain! CRA has taken steps to prevent this fraud.

Additionally, in October 2016 CRA has created new rules regarding the Principal Residence Exemption to further reduce the chance that taxes will go unpaid.

The bottom line

A family cottage is an important possession that effects more than your financial portfolio. Chances are you want to pass the cottage on to your children or a younger generation in your family to keep the memories and moments alive.

Before you go selling your valuable cottage for a buck in hopes of avoiding taxation, contact both an accountant and lawyer experienced in the field. If you would like to discuss things further or would like a recommendation, don't hesitate to give me a call.

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