

Keeping the Family in the Family Cottage

How to plan for cottage succession for future generations despite the multiple financial hurdles and inevitable family issues.

Succession Stumbling Blocks

The current ownership generation is approaching or past retirement age. Discretionary income available for cottage expenses are decreasing, at the same time that cottage ownership costs (taxes, utilities, compliance with environmental regulations, septic system upgrades, maintenance, repairs) are increasing. Financial planning and prioritization of resources is critical to enable this generation of owners to afford to retain the cottage for the next generation.

The successor generation is challenged by the economic downturn and are less able to afford to buy a new cottage or afford sole ownership of any cottage property. For many, the only viable cottage opportunity for themselves and their children is to preserve the existing cottage in the family, sharing the usage and costs with siblings and other family members. Family cottages shared by multiple sibling families can cause inevitable friction, differences and disputes, for any family, putting the continued survival of the family cottage at risk following the succession.

Paying the Capital Gains Tax

The first challenge in changing the ownership of a cottage is the capital gains tax. This must be paid when the cottage is sold or transferred, during the parents' lifetime or after their death. Although the federal government recently reduced the impact of this tax, it can still cost tens of thousands of dollars, and many families are forced to sell the cottage as a result.

Keeping the Cottage Going

The second challenge is working out how the children will agree to use and operate the cottage. Among the questions to be answered are: Can any child use the cottage any time, or will there be periods of exclusive use? Who will open and close the cottage? Who makes sure the bills are paid? Who decides if improvements or additions are to be made? When a son dies, does his share of the cottage pass to his wife or his children, or does ownership continue with the surviving siblings only. Without good answers to these questions, many cottages become a source of family strife, not pleasure.

Managing Expenses

The third challenge involves the children's financial status. Usually siblings have different financial resources and abilities. Expenses are inevitable, whether it's replacing the septic system, paying the municipal taxes or repairing the roof. If some of the kids can't afford to contribute their fair share, then friction and stress are also inevitable.

The Solution

Professional Cottage Succession Planning, including aspects of:

- Wealth management, tax and legal planning to address the financial hurdles; and
- Estate and legal planning to cope with family challenges.

- With notes from Peter Lillico of Lillico Bazuk Galloway Halka Barristers and Solicitors. Peter's practice is concentrated in the areas of Estate Planning, Business and Corporate Law, and Real Estate. For more cottage succession information, visit his website at www.lbghlaw.com.