THE GLOBE AND MAIL

OPINION

How to navigate the emotional minefield of transitioning the family cottage

ALEXANDRA HORWOOD

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For many Canadians, the family cottage is much more than a financial asset – it's home to years of cherished memories and a much-needed respite from busy city living.

Jumping in the lake before breakfast, getting ice cream "from that one place in town," roasting marshmallows by the campfire, and the tranquility felt among star-filled skies are just some of the precious memories many families have made at the cottage. Those moments underscore why even asking the question – "What will we do with the family cottage?" – evokes powerful emotions from family members.

"We'll just give it to our kids" is a typical response from parents starting to think about their cottage succession plan. However, that doesn't scratch the surface of everything that needs to be considered, such as family dynamics, scheduling, spouses, maintenance, and of course, who can afford the cottage and its upkeep.

An advisor's guidance around cottage succession plans should be rooted in maintaining family harmony and teaching clients about all their options.

Cottage owners can begin by having an upfront and collaborative family conversation while acknowledging everyone's input and emotions as part of the decision-making process.

Educating clients on how to guide these family discussions proactively can reduce resentment among family members. It can also prevent the risk that postponing important decisions will affect the cottage owner's best interests negatively.

Who wants it and who can afford it

If parents have two children but only one wants the cottage, how do they ensure the transfer of wealth is fair?

What if both want ownership, but one is unable to do extensive physical maintenance. How can families avoid friction and resentment from uneven labour and financial contributions?

Another consideration is that if ownership is split across multiple siblings, will spouses and children be able to share use of the cottage and, if so, how will schedules and work be divided?

Children may not have a line of sight into the very real costs and commitment involved in maintaining a cottage, so parents hosting a family meeting to walk them through the cottage financials and maintenance processes will give them greater insight into this new responsibility.

A property appraisal to know the exact value of the family cottage is an important factor.

With the cottage market skyrocketing during the pandemic, many Canadians are struggling to afford their first home, let alone a secondary property. In some cases, Canadian cottages are more expensive than 11-bedroom chateaus in France.

When it comes to ownership, fair is not always equal. For example, some family members may work in a trade and be able to contribute significantly through upkeep, whereas others may be more comfortable contributing financially.

Some, upon learning of the weight of the responsibility, may not want any ownership at all. An advisor can steer clients through all the ownership options available.

How to transfer the cottage most effectively

There are also several strategies that clients need to explore when considering how to transfer the asset.

The concept of “giving while you’re living” remains a popular choice for parents to both maximize the wealth they’re transferring as well as to provide their children with the benefits of their inheritance earlier in life.

While most cottages are not principal residences and thus may be subject to capital gains taxes, advisors may suggest this as a less costly and cumbersome option than navigating both the taxes and probate fees upon death if there are resources available to pay the tax bill upfront.

If cottage owners prefer to transfer the entirety of their estate upon passing, an advisor can work to ensure the specifics of the transfer are laid out in the will and communicated clearly and early to avoid surprises.

A highly effective wealth transfer tool that often goes overlooked is investing in a life insurance policy for the cottage, specifically.

Life insurance is the great equalizer, serving as an easy and guaranteed tool to transfer wealth that is both tax-free and creditor exempt. The right policy can pay the tax bill upon the sale or transfer of the cottage and provide working capital for ongoing maintenance.

Working with a specialist who understands strategies to lower their tax bill and transfer wealth effectively can ensure clients reap the benefits of life insurance when it comes to succession planning.

As part of the evolving discussions with the family, advisors can also help clients determine a fair and equitable schedule for the cottage. Factors include everything from holiday schedules to who will open and close the cottage each year.

A contractual agreement signed by family members and their spouses is important to ensure the decisions being made are outlined and agreed upon by all. Revisiting the conversation and agreement as life evolves and circumstances change will be key to family harmony and a successful succession plan.

Just as clients shouldn't wait until they're sick to sell their businesses, cottage owners should be in the driver's seat when deciding what to do with this most precious asset. They should start this process as soon as possible.

Alexandra Horwood is a portfolio manager and investment advisor with Alexandra Horwood and Partners at Richardson Wealth Ltd. in Toronto. She is also a member of The Globe and Mail and SHOOK Research's inaugural ranking of Canada's Top Wealth Advisors.

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