



CESTNICK

TAX MATTERS

A cottage succession plan is more important than you think

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My kids are now in their late teens and early 20s and, ever since they were young, we've been spending time in Muskoka in the summers. Years ago, we would rent places in and around Huntsville, Ont. – mostly on Mary Lake. It was almost exactly 10 years ago that we bought our cottage; our kids have great memories growing up there and most of their close friends today are neighbours at the lake.

It's easy to have a love-hate relationship with a cottage or cabin. I love our place north of the city when I'm sitting on the dock on a hot summer day with a warm breeze blowing, sipping a cold drink and watching the kids take their friends out on the boat (I try not to think about the cost of gas in those moments).

But then there are times – usually the long weekend in May each year – when I wander around the property to see what havoc the winter has wreaked on our shoreline, the bunkie, the deck, our plumbing, or any number of other fixtures. This is usually followed by me,

with an adjustable wrench in one hand and a drill in the other, fixing things for a few days.

Truly, I wouldn't trade it for anything. Carolyn and I do wonder what the future holds for the cottage after we're gone. Our kids love the place (although not all equally), and so our desire is to leave it to them since they'll want to be at the lake for some part of each summer. What will that look like?

I've seen too many situations where parents have failed to think ahead about how the cottage will be shared. Most often, it usually ends up in the hands of one family member or is sold altogether. And maybe that's the right answer in many cases. But I think that in other situations, things could have been handled differently because I've seen relationships hurt when a property is purchased by one child to the exclusion of others, or when the property is simply sold despite the emotional attachment to the cottage.

I have seen other families that have very successfully managed a transition to the next generation where the property is shared by the children. This is what I'd like for our cottage (at least for the next generation). It's going to take a plan. Where are we going to start?

In our case, the kids are young enough that there are some things we don't know yet. We don't know, for example, how much time each of them will want to spend at the cottage – and this could change as they settle into their careers, get married and have their own children (all of this has been planned out by their mother, I should add).

The wisest cottage owners will set some sort of timeline for figuring out who will want to use the cottage when the last of the parents is gone. One family I know has a cabin in British Columbia, but the kids are all in Ontario and none are likely to use the place much because of the distance. That family has decided to sell the cabin, but to give extended family in Western Canada the first opportunity to buy it. In our situation, we want to revisit the issue in about 10 years, or earlier if there seems to be more clarity around who wants to use the cottage.

Wise cottage owners will understand not only who wants the cottage, but who can afford to contribute to its upkeep. This is where harsh financial realities can collide with emotional attachments to the cottage. If all three of my kids want to use the cottage after we're gone, I don't want financial challenges for one or two of them to prevent them from building similar memories at the lake for their own families. But that's just me. At this moment, our plan is to provide a pool of money that can help the kids with the cost of maintaining the property, which we'll accomplish with a joint, last-to-die insurance policy.

Finally, once we know who is going to share the cottage, and what the financial side of things will look like, I want to sleep at night knowing the kids have a blueprint for sharing the retreat. We're going to sit down with them later and put together a Cottage Agreement (it's still a little premature today given their stage of life). The agreement will address things like setting a schedule for use of the cottage, general rules around having guests, performing maintenance work, and how to make decisions or solve disagreements about the cottage, among other things. (See my column of May 21, 2020, for more on Cottage Agreements.

Tim Cestnick, FCPA, FCA, CPA(IL), CFP, TEP, is an author, and co-founder and CEO of Our Family Office Inc. He can be reached at tim@ourfamilyoffice.ca