



**Lori Samuels**  
Wealth Manager  
250-979-2712

[lori.samuels@raymondjames.ca](mailto:lori.samuels@raymondjames.ca)



**Jay Dowhaniuk**  
Wealth Manager  
250-979-2720

[jay.dowhaniuk@raymondjames.ca](mailto:jay.dowhaniuk@raymondjames.ca)

**Raymond James Ltd.**  
500 – 1726 Dolphin Avenue  
Kelowna, BC V1Y 9R9  
[www.johnsonlegacy.ca](http://www.johnsonlegacy.ca)

## What to do about the family cottage?

With real estate prices rising and retirement considerations coming into focus, you may be starting to think about selling the family cottage/cabin. Unfortunately, there is a good chance you are going to be facing a capital gains tax bill.

Before January 1, 1972, there was no tax on capital gains in Canada (ahh the good ol' days!). Not only was this a wonderful time for your investment portfolio, but it was great for your real estate too. You could sell your cottage or pass it along to your family without any tax consequences. As of January 1, 1972 the rules changed. December 31, 1971 was fixed as the 'valuation day' when you had to assign an acceptable value to the property and this could be used as the adjusted cost base (ACB). The CRA calculates the capital gains on the sale of a cottage as the proceeds of the sale plus the cost of any capital improvements you have made to the property minus the ACB. 50% of the gain is taxable at your marginal tax rate.

There were still tax advantages in place until January 1, 1982. Prior to that time, each family member was allowed to designate a property as a principal residence. So, in a family with a husband and wife and two properties, they could each claim one as a principal residence and avoid any tax on disposing of either one of them. After 1982, however, the rules changed and you were only allowed one property as your principal residence that would be exempt from capital gains tax.

So we've established that you must pay tax on the sale of a property if it is not your principal residence, but what about gifting it or passing it along to your family at death? On your death if there is no surviving spouse, 50% of the capital gain must be included in your income that year and is taxed at your marginal tax rate. If you gift the property to family prior to death, this would still be considered a deemed disposition and capital gains taxes would be owed.

### Other options

You could consult a lawyer and see if there would be any advantages to transferring the cottage into a trust or a corporation. This would allow for the cottage to be held for future generations without having to sell it. However, half of any gain to the date of transfer would be taxable.

Typically, the easiest and most cost effective way to cover property/estate income tax liabilities is through insurance. The death benefit is tax free and will enhance the estate, making sure there is enough cash to pay the income taxes. You may even want to structure it so that your children/beneficiaries pay the insurance premium.

### Keeping the cottage in the family

Beyond tax there are other things to consider when thinking about passing the cottage to family members. The first step is to figure out who in the family really wants the cottage and who can actually afford to keep and maintain it. If some family members really want the cottage but others don't, you could stipulate some other form(s) of compensation to make things fair. You can quickly see how complex transferring ownership of a property can become. It can be an especially difficult exercise when family is involved because there is often sentimental value attached to a family cottage. However, the greatest mistake families make is not communicating with each other. Family discussions are essential because the last thing you want is for the property to become a source of conflict. When you are ready to address these issues, be sure to consult your financial, legal and accounting professionals for advice.

### Market Pulse:

| Major Stock Indexes        | Level/Price | YTD Return<br>Ending Aug 30th/19 |
|----------------------------|-------------|----------------------------------|
| S&P/TSX Comp               | 16,442      | 14.80%                           |
| S&P 500 Comp               | 2,926       | 16.74%                           |
| Dow Jones Industrial Avg   | 26,403      | 13.19%                           |
| Major Bond Index           |             |                                  |
| Dex Universe               | 1,143       | 8.70%                            |
| Commodities                |             |                                  |
| Crude Oil - WTI (US\$/bbl) | \$53.77     | 18.41%                           |
| Gold (US\$/oz.)            | \$1,537     | 19.98%                           |
| N. Gas (US\$/MMBtu)        | \$2.32      | -21.16%                          |
| Currency                   |             |                                  |
| Canadian Dollar (CAD/USD)  | \$0.75      | 1.98%                            |



## Personal Updates:

Lori had a fantastic summer being active and social in the Okanagan. She wrapped up the Labour Day weekend with 2 wine tours, a pool party, golf, stand up paddle boarding and bbqs!

On August 24 & 25, Jay participated in his sixth Ride To Conquer Cancer benefiting the BC Cancer Foundation. A BIG THANK YOU to everyone who supported and helped Jay raise \$6,100 this year. The entire Raymond James team raised \$55,600, bringing the running total to over \$515,000 since 2011!

Charley who's entering grade six and Tucker who's entering grade four are both looking forward to getting back into a regular routine of dance, soccer and hockey.

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*Commissions, trailing commissions, management fees and expenses all may be associated with mutual funds. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.*

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