

Cottage Succession Planning

October all brings with it the feeling of a fresh start. It can be a time to buckle down, get organized, and revisit your priorities. This is also the time of year cottagers begin to think about closing up cabins for the winter.

These days, in the midst of stock and bond market volatility and reports of catastrophic hurricane damage, many may wish they could retreat back to the cottage and forget about current events and the markets. Please remember, we help our clients build investment strategies that are designed to fulfil your financial plan even despite market volatility. We invite you to revisit an earlier newsletter we wrote, **Riding Out Market Volatility**. And, as always, we are available to talk and review with you how your strategy, in particular, is designed to support your objectives through market ups and downs.

This week we continue to celebrate National Truth and Reconciliation Day and commemorated Orange Shirt Day on September 30, honouring the experience of indigenous peoples while celebrating resilience and affirming a commitment that every child matters.

Thinking about cottages brings us to thinking about something very near and dear to us: Cottage Succession Planning. As we send our kids and grandkids back to school and head up to the lake to enjoy the final warm



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days exploring in kayaks or toasting marshmallows by the fire, its time to think about planning for the intergenerational future of these precious places.

Inheriting a family cottage can be a wonderful thing. But, it can also be a double-edged sword: the property can be a source of great family memories, but also a source of conflict and division if careful planning isn't considered and communicated. Whether a cottage property has been newly acquired or owned for decades, careful succession planning is essential, in order to maintain family harmony, manage taxes, and keep the cottage in the family. There is of course much more to consider than we could cover in one newsletter so if you are at a point where you are actively planning your cottage succession please reach out to us directly.

First and foremost: Family.

As parents, cottage owners may have a variety of motivations for thinking about transitioning cottage ownership to children. Keeping the cottage in the family is often front of mind. But there may be additional motivations and questions to reflect on, such as thinking about your changing capacities, physical and financial. Cottage maintenance can feel like a full-time job. In retirement is that a job you can see yourself thriving in or one it may be time to pass on to the next generation?

When it comes to the kids there are a number of considerations such as: How close do they live to the cottage? How often do they expect to be able to visit the

cottage? What is their level of interest in the cottage and personal preparedness for ownership? Interest and capacity with respect to cottage ownership likely will vary greatly from child to child no matter how much they all love the cottage. If more than one child is interested in the family cottage an additional consideration is a cottage sharing agreement that your successors can be involved in drafting.

Which brings us to communication. When it comes to succession planning with family, communication is the key. Beneficiary expectations should be discussed and addressed. Even if you have what you believe to be a brilliant and well documented plan, implementation of that plan will be much smoother for your successors if they understand and agree on what is coming.

Can't forget the Tax:

Tax implications arise from cottage transitions, including capital gains tax, land transfer tax and estate administration tax. Without careful planning, your estate trustee could be forced to sell the property to satisfy the considerable tax liability that typically arises on the death of a vacation property owner.

Many succession plans run into trouble when a parent has simply willed the property to their children, without consideration for the resulting capital gains tax liability. In the worst cases neither the estate nor the successor may have the funds to cover the tax which could

tragically result in having to sell. In order to avoid this there are several planning actions that can be taken. Firstly, you can estimate the funds necessary to cover the costs of transition and leave that extra money to your heirs. You may consider a life insurance policy sufficient to cover those taxes at death. Or you might opt to gift the cottage to your heirs while you are still living, thus triggering any capital gains taxes while you can control how it is paid, and potentially limit any further increases in capital gains taxes until such time as your children are ready to pass the cottage on themselves.

Protecting the Cottage:

One big risk to a cottage succession plan is family friction. A cottage sharing agreement can help keep all family members on the same page as to how disputes will be handled. Relationship breakdown is another potential risk. Unfortunately as financial planners we are all too aware that the divorce rate in Ontario is about 40%, and that in divorce proceedings the family cottage is likely to come into play as a matrimonial property. Creditor worries can also be an issue. What if a child declares bankruptcy? This is all a lot to worry about. Advance planning and the use of trusts can help to protect against some of the aforementioned risks.

If you think planning for the future of your beloved family cottage sounds complicated, well, it is. We understand those complexities firsthand. In a previous newsletter celebrating International Women's Day we wrote about an incredible woman, Sonia's Granny and

Adrian, Rowan and Robbie's great-grandmother, a trail-blazing female stockbroker and our family matriarch. But did you also know Lillice LeRoy was a brilliant woman and a mastermind of cottage succession planning? She and her husband DJ LeRoy set up a family corporation that would allow for the expansion and use of family cottage land from generation to generation, making each of their family heirs a shareholder. Four generations later we all still make our ways up to the cottage to make maple syrup together every spring thanks to Lillice's tremendous cottage succession planning skills. We would love to help you review your financial cottage succession plan so you're can set your family up for a seamless transition when the time comes, so they too can enjoy the family home away from home for generations to come.

We would like to take a moment to remember Queen Elizabeth II, who passed this September the 8th 2022 after reigning for over 70 years. Over those year's she has been a constant in people's lives, inspiring and overseeing much social change across The Commonwealth. As we face uncertain and trying times in the wake of her passing, we continue to be here to support you. We can get through this bear market together, remembering her famous advice, "keeping calm and carrying on".

We would love to thank you for reading our newsletter by mailing you a gift. The first five people to contact Rowan Hughes at rowan.hughes@ipcsecurities.com will be sent an orange

tee shirt designed by an indigenous artist to wear this upcoming orange tee shirt day. Be sure to let us know your preferred size.

Finally, we have some very exciting news to share...

At the IPC Annual Summit in Muskoka earlier this week, our Senior Wealth Advisor, Sonia LeRoy was honoured to receive one of IPC's Top 10 Wealth Builder awards. The past several years have been difficult emotionally and financially for many. But, our Team continues hard at work to build your wealth sustainably and responsibly. Congratulations Sonia!

Thank you,

Sonia & Adrian