

For many families, the cottage is more than just a property – it's a place of shared memories, connection with nature and a place to enjoy the warmth of shared meals and laughter with family and friends. Arguably, a cottage's value often transcends monetary worth. For cottage owners, the hope is often the same: that the next generation will continue to enjoy and cherish it for many years to come.

But this vision requires planning. Ownership will inevitably change hands, and how that transition is managed can make all the difference. Succession planning for a family cottage entails a multitude of considerations. Practical logistics, family dynamics, estate and tax planning all play a critical role. A good starting point is asking the fundamental question:

Who wants the cottage?

Before developing a tax plan, it's essential to first determine who, if anyone, is genuinely interested in taking on ownership of the cottage. This initial step is critical, as it sets the direction for the rest of the planning process—which can be layered with both tax complexities and sensitive family dynamics. While tax rules are generally well-defined and manageable with professional guidance, family relationships are far more nuanced and unpredictable.

Given that a cottage can often represent a substantial asset in a typical estate—both financially and emotionally—thoughtful, proactive planning becomes all the more important. There's a lot to unpack, from ownership structures and succession strategies to maintenance responsibilities and long-term financial implications. A poorly planned transition can lead to resentment, conflict, or even legal disputes, potentially creating lasting rifts within the family.

Once it becomes clear who, if anyone, is genuinely interested in taking over the cottage, planning can move forward into a range of tax and non-tax considerations. These may include ownership structures, succession strategies, capital gains implications, and maintenance responsibilities. Not every element will apply in every situation, but each has the potential to either support or complicate the process, depending on the family's goals and dynamics.

If no family member wishes to assume ownership, it's important to be prepared for the possibility of a third-party sale. In that case, planning should shift toward maximizing the financial outcome, minimizing tax exposure, and ensuring the process is handled with transparency and fairness. While this outcome may be emotionally difficult, it can also provide closure and financial flexibility for all involved.

This article begins with a Cottage Planning Checklist that summarizes many of the planning choices discussed in this article. If you are a cottage owner, we encourage you to complete the checklist and use it to begin the conversation with your financial and tax professionals.

Checklist of Considerations

- ☐ **Determine which heirs are interested in inheriting the cottage**
 - All want it (**see 1A**)
 - Some want it/compatibility issues (**see 1B**)
 - None want it/compatibility issues (**see 1C**)
- ☐ **Any concerns with short or long-term affordability for heirs? (**see 2B**)**
- ☐ **Tax considerations (**see 2C**)**
 - Ensure all historical capital improvements are tracked and a list is maintained.
 - Was the 1994 one-time election used to bump the ACB of the cottage?
 - If so, by how much?
 - Was the cottage purchased before 1982?
 - If so, principal residence exemption can be split between spouses for different property for the years 1972-1981.
 - Was the cottage purchased before 1972?
 - List fair market value (or an estimate) as of Dec 31, 1971: _____
 - If being transferred before death, the capital gains reserve may be available to spread out the taxable gain (if any).
 - Is there sufficient liquidity in your estate to fund taxes?
 - Consider life insurance to cover the gap.
- ☐ **Is the cottage on leased or owned land? (**see 2D**)**
 - If leased:
 - How much longer is left on the lease?
 - Would the renewal process be contentious?
- ☐ **Have you considered transferring the cottage to the interested parties before death? (**see 2E**)**
 - Can help ease the transition into cottage ownership and ensure you are around to answer questions.
 - As you age, you may not want to be responsible for property maintenance.
- ☐ **Are any heirs a non-resident of Canada or is there a chance they may become one? (**see 2F**)**
 - These rules are complex but very important to consider.
- ☐ **Do the interested heirs have spousal agreements? (**see 2G**)**
 - Consider discussing as a way to mitigate risk of the cottage being included in the division of assets upon the breakdown of a relationship.
- ☐ **Is a trust being considered to hold title to the cottage? (**see 2H**)**
 - Ensure the following items are considered as part of that planning:
 - Underused Housing Tax
 - New Reporting Requirements for Trusts
 - Limits on Principal Residence Exemption

Case Facts – The Woods Family

Let's begin with a commonly seen fact pattern:

- Meet Spruce and Pine Woods, both recently turned 60 and newly retired.
- They have 3 adult children named Ash, Elm and Hickory. All are in their 30s but at different stages of life.
- Spruce and Pine built a family cottage many years ago using a variety of materials. They loved it so much they ended up naming their children after those same materials. As such, they see the cottage as a family heirloom and would like to pass it down to their children.
- They have discussed the idea of ownership with each child separately. All have expressed interest with varying degrees of enthusiasm. Hickory in particular is undecided as she is still in the infancy of her career and has toyed with the idea of moving to the United States on a permanent basis.
- Spruce and Pine realize that their children are still young and have many life stages to go through. They know that their plan for the cottage will require flexibility. However, they aren't sure where to start.

1. Main Consideration – Who Wants the Cottage

The ideal starting point for family cottage planning is to identify who is genuinely interested in future ownership, and to what extent. In our case study, all three children share fond memories of time spent at the cottage. Ash and Elm may see it as a place to raise their own families and continue building traditions. Hickory, on the other hand, may cherish those memories while envisioning a different path forward.

Age and life stage are important factors to consider when discussing future cottage ownership. As many parents know, children's perspectives can shift significantly over time. What seems appealing in their twenties may feel burdensome later on, and vice versa. That's why it's essential to help them understand the full scope of what cottage ownership entails.

Owning a cottage is more than just enjoying summer weekends—it's a long-term commitment that involves financial responsibility, time investment, and physical effort. From property taxes and maintenance costs to the time required for seasonal upkeep, these obligations can add up quickly. Emergencies—like storm damage, plumbing issues, or unexpected repairs—can also arise, requiring both immediate attention and financial readiness.

Even if your children have seen you manage these challenges, they may not fully grasp the behind-the-scenes effort involved. Take time to share some of the more difficult moments you've faced—whether it was a costly repair, a time-consuming renovation, or a stressful emergency. These conversations can help them realistically assess whether they're ready and willing to take on such responsibilities in the future.

1A. *All Want the Cottage*

Suppose that Ash, Elm and Hickory are all interested in inheriting the cottage. The Woods are also reasonably confident the children could handle ownership as a group. How can this be set up?

One option is to have a co-ownership agreement outlining the parameters of the relationship. The agreement would need to be settled on by all parties and could include items such as (but not limited to):

- Allocation of time/days for each child to have use of the cottage
- Sharing of costs
- Dispute resolution
- Right to recover the share of expenses not paid by one party
- Circumstances of shotgun or buyout privileges (ex. to recover the unpaid expenses noted above)
- Valuation methodology if a buyout is necessary or desired
- Other (as needed depending on family dynamics)

There are many issues that could arise and make the co-ownership relationship untenable. Agreeing on the parameters for dispute resolution in advance provides the best chance of having an amicable resolution. A well thought out co-ownership agreement can protect the family relationship. Once ownership has been transferred to Ash, Elm and Hickory, each party to the agreement will be relying on it to hold the relationship together should a dispute arise.

The ultimate goal may be to transfer the cottage successfully to a co-ownership group that includes all of your children. But what happens if, during discussions and the drafting of a co-ownership agreement, Elm realizes they're not comfortable being closely tied to their siblings in such an arrangement? This is a very real possibility for families like Spruce and Pine as they explore options with their children. While the idea of shared ownership can seem appealing at first, the reality is that it functions much like a business partnership—one that not every sibling may be willing or able to commit to. Differences in personalities, lifestyles, or financial priorities can all influence whether co-ownership is truly viable.

Not all is lost though if this is how it were to play out for Spruce and Pine. They could then shift to our next category exploring what to consider if not all children want the cottage or there are compatibility concerns.

1B. Some Want the Cottage – Or Compatibility is Questionable

Let's continue with our example and discuss what Spruce and Pine should consider if Elm expresses interest but does not want to be tied to their siblings in a business relationship. An option here would be for Spruce and Pine to implement a lottery clause in their Wills which would see a draw occur to determine who has the right to receive the cottage as part of their share of the estate. The unsuccessful party or parties would then be equalized in the Will using other assets in the estate, such as cash, investments or other property.

If the child who wins the lottery wishes to own the property with their other sibling, and the other sibling is in agreement, a co-ownership agreement should be considered in the same manner as if all children were going to share the property. In that case, each owning child would receive $\frac{1}{2}$ the value of the cottage as part of their shares of your estate, while Hickory (the third sibling) would receive an equalization payment.

Equalization will be an important consideration here as there is potential for hard feelings to brew as a result of the lottery. Heirlooms are often seen as priceless or irreplaceable and the unsuccessful parties may feel slighted regardless how much they receive in lieu. To mitigate against this occurring, it is recommended to include a determination of FMV as part of the process whereby each party to the process would have the right to obtain a market value opinion from a real estate agent familiar with the area where the cottage is located. The FMV used for equalization purposes for the unsuccessful or uninterested parties would then be an average of the market value opinions obtained. Going through these steps can help increase buy-in for the lottery process and would give each of the interested parties a say in the value used in the process.

A lottery serves as a last-resort decision-making mechanism, offering an equal and unbiased chance to all parties when relationships are strained and there is no interest in selling the property. It removes subjectivity from the process, allowing for a resolution when consensus cannot be reached.

There are many ways to provide for fair equalization for the unsuccessful parties to the lottery depending on what other assets are available in the estate. However, each situation is unique and specific solutions are outside the scope of this article. What we will mention are the following two considerations for when it comes time to look at equalization:

- 1) Discuss Ahead of Time – Part of the advanced discussions with each child should include what would happen if they were to be unsuccessful in the lottery.
- 2) Life Insurance – Suppose the Woods family cottage has appreciated significantly over time, becoming such a substantial portion of the estate that equalizing with the other beneficiaries is no longer feasible. In situations like this, life insurance is often the most practical solution. The earlier it's considered, the more affordable the premiums are likely to be. By securing an appropriate policy on their lives—payable upon the death of the surviving parent—the proceeds can be made available quickly and used to help equalize inheritances among beneficiaries or cover estate taxes, if necessary.

1C. No One Wants the Cottage – Or Compatibility Issues

What if, after discussing with each child, Spruce and Pine come to the conclusion that no one wants the cottage, or that it will be too divisive of a process? This is the easiest situation to manage because it removes the wants of the children from the equation. The analysis then turns to when they should sell it. Considerations include selling the property once it becomes

unmanageable or no longer provides enjoyment, or is no longer affordable within their retirement budget.

If the intention is to retain the cottage until death and there's a possibility that selling the property could take time, it's wise to consider purchasing a life insurance policy to cover the estate's tax liability. This approach provides the estate with immediate liquidity, allowing executors to settle obligations—including taxes owed to the CRA—without being forced to sell the property under pressure. Life insurance can offer critical flexibility, ensuring that the timing of a sale is driven by strategy rather than necessity.

2. Secondary Considerations – Regardless of Who Wants the Cottage

Now that we're through the biggest items, let's review a few more considerations that Spruce and Pine should make if they will be passing along the cottage to one or more of Ash, Elm and Hickory.

2A. Anti-Flip Clause

Imagine a scenario where a lottery is used to determine who inherits the family cottage, and Ash wins the property while Elm and Hickory receive equal-value compensation from the estate. If Ash later sells the cottage for more than the value used in the equalization, it could understandably create tension. Elm and Hickory may feel that a cherished family asset was lost and that Ash ultimately received more than their fair share.

To help mitigate this, an anti-flip clause could be included in the lottery agreement. Under this clause, for the first three years of ownership, the recipient of the property would be required to offer it to their siblings before selling it to a third party. The offer would be based on the original equalization value, with reasonable adjustments for factors such as inflation, documented capital improvements (net of depreciation), major repairs, or significant changes in the property's condition. This gives siblings a fair opportunity to retain the cottage within the family, should circumstances change.

2B. Affordability

A realistic assessment of whether owning the cottage would be affordable to the interested parties should be undertaken by Spruce and Pine. Two areas where this could cause issues are as follows:

- When multiple parties will share ownership going forward, one would assume the parties will split costs evenly. What happens though when one party wants to renovate at a cost that is not affordable to the other party?
- What about a situation where one or more parties want the cottage but cannot afford it?

These are difficult situations to navigate that have a better chance of a positive result if considered in advance. While not suitable in all cases, one option for dealing with this is to set up a cottage fund to help ease the financial burden through the transition period, or to pay for certain agreed upon renovations. The fund would be set up as a trust with defined rules for how they can be used, with an understanding that once the cash is used up there will be no additional funding provided. If there are an even number of parties to the trust, a tie breaker can be considered in the event of a disagreement on the use of funds.

Establishing a cottage fund would provide an upkeep fund if wealth discrepancies are a concern, or a transition fund if they can't afford it at present but expect to be able to in the future. Equalization with heirs not inheriting the cottage should be considered in the event a cottage fund is established.

2C. Taxes

The Principal Residents Exemption ("PRE") allows the owner of multiple properties the right to choose which property will be exempt from tax as their principal residence. There is also the potential to fully shelter one property and still have PRE available for the second property. We are not going to run through these rules as they are complex and outside the scope of this article. However, we would like to note a few planning points that can help with preparing a PRE analysis:

- It's essential to maintain a detailed and up-to-date record of all capital improvements made to the cottage. These improvements can be added to the property's Adjusted Cost Base (ACB), which may help reduce the capital gain—and therefore the tax liability—on a future sale or transfer. We want to emphasize the importance of tracking this information as it happens. Attempting to reconstruct a list of improvements years later, especially after the original owners have passed away, can be extremely difficult and, in many cases, impossible.
- Up to a \$100k bump to ACB for capital assets owned in 1994 was available to be claimed in the owners 1994 tax return. If this election was made, it would increase the ACB of that property by the elected amount.

- Was the property purchased before 1982? Before 1982, each spouse was provided a PRE to use on the eligible property of their choice regardless of what the other spouse did. For 1982 and subsequent years, if one spouse uses their PRE for any given year it would also use the PRE of the other spouse for that year.
- Was the property purchased before 1972? Capital gains tax was introduced in 1972 so any gains incurred before this time were not taxable. The ACB of properties purchased before 1972 will be their Fair Market Value on Dec 31, 1971 instead of their original purchase price.
- If a sale or transfer is to occur for reduced or no consideration, the capital gains reserve could be claimed to spread the gain out over a number of tax years if it would provide a benefit. Note that a sale/transfer for reduced consideration is not advisable since the seller would still be deemed to have sold the property for its fair market value. Meanwhile, the purchaser would only have an ACB of what was actually paid for the property. This would lead to double taxation on a subsequent sale/transfer of the property.
- PRE is not limited to Canadian properties. Foreign properties are eligible for PRE so long as they meet all of the eligibility requirements.

Say Spruce and Pine would like to transfer the cottage to the interested children but have already used their PRE and don't have the funds available to pay the resulting taxes? The unfortunate truth is that if they can't come up with enough cash to pay CRA, they may have to sell the property instead of passing it down. This is where life insurance can help. Maintaining a policy with a death benefit equal or greater than the estimated taxes will ensure cash is available to fund the tax liability.

2D. Leased Land vs Owned Land

Leased land can still qualify for the Principal Residence Exemption even though it is not owned. For example, say the Woods family cottage is located on crown land which holds a 99-year lease of which they are in year 80. When they eventually sell or pass down the property, the fact that the land was leased should not impact their PRE eligibility.

Another important consideration is the lease renewal process. This can sometimes be an awkward or uncertain step, as the government or other legal landowner may retain the right to deny a renewal. While such denials are rare, the possibility can be concerning. If there are any doubts, it may be helpful to consult with a local real estate professional who is familiar with similar lease arrangements. They can provide insight into how renewals have typically been handled by the landowner in comparable situations.

2E. Warm Hand vs Cold Hand

Spruce and Pine should consider whether they would prefer to transition the cottage at death or gift it during their lifetime. Giving with a warm hand rather than a cold one can offer several advantages:

- **Ease of Transition into Ownership:** Transferring the cottage during their lifetime allows Spruce and Pine to support the new owner or ownership group, answer questions, and help navigate the responsibilities of ownership—making the transition smoother and more informed.
- **Maintenance in Later Years:** As they enjoy retirement, the reality is that maintaining the cottage may become increasingly difficult due to age, health, or logistical challenges—especially if the property is on an island. Transferring ownership earlier can relieve them of these burdens while ensuring the cottage remains in the family.
- **Right of Use Considerations:** If the cottage is gifted during their lifetime, Spruce and Pine may wish to retain certain usage rights—such as seasonal access or a reserved period each year. These rights can be formalized in a co-ownership or use agreement to avoid misunderstandings and preserve their continued enjoyment of the property.
- **Equalization Strategies:** If only one child receives the cottage, equalization with other beneficiaries becomes a key concern. A vendor take-back (VTB) mortgage can be used to transfer the property at fair market value (FMV), ensuring the recipient's adjusted cost base (ACB) is properly established. The VTB can then be forgiven in their Wills to achieve equalization. Alternatively, the cottage could be gifted outright, with other assets or life insurance used to balance the estate.

Each of these options carries tax, legal, and emotional implications, so careful planning and open family dialogue are essential to achieving a fair and lasting outcome.

2F. Non-Resident Children

Tax issues linked to a cottage being owned by a non-resident child, such as estate tax in foreign jurisdictions, should be considered but are outside the scope of this article. If this is a consideration for you, a cross-border tax professional should be consulted prior to finalizing the plan.

The practicality of owning a cottage as a non-resident should also be considered. Examples of practical considerations include:

- **Location of cottage in relation to the residence of the child.** This is not exclusive to a non-resident child as a child that lives 6 hours away may have the same consideration. How often would they realistically travel to enjoy it?
- **How practical is it to deal with any issues at the cottage long distance?**

These potential issues are not insurmountable, but it is important to consider them as part of the planning process.

2G. Relationship Breakdown - Children

There's no better time to plan than when relationships are strong. This principle applies just as much to co-ownership planning as it does to family property and marriage. Addressing matters like spousal agreements early can help ensure that a future relationship breakdown doesn't result in a forced sale of the cottage.

With that said, this aspect lies outside of Spruce and Pine's control. What they can influence is how the cottage is gifted and the structure in which their children will hold it going forward. Two key options to consider are:

- Holding the cottage in a trust: A trust can include specific provisions outlining what should happen if one of the next-generation beneficiaries experiences a relationship breakdown. This can help shield the property from division under family law.
- Using a co-ownership agreement: If direct ownership is preferred or a trust is not feasible, a well-drafted co-ownership agreement can provide similar protections. As discussed earlier, this agreement can address scenarios such as a sibling wanting to exit ownership or the impact of a marital breakdown.

It's important to note that the rules governing property division on relationship breakdown vary by province, and a detailed legal review is beyond the scope of this article. However, proactive planning—while relationships are positive—can go a long way in preserving both the cottage and family harmony.

2H. Held in a Trust

At numerous points in this article, we have mentioned the use of a trust to hold the cottage, or funds earmarked for cottage use, as an alternative to direct ownership. If this is a consideration in your planning, be aware of getting tripped up by the following:

- Underused Housing Tax
- New Reporting Requirements for Trusts
- Limits on claiming PRE unless the property is distributed before sale

We recommend discussing these items with your tax professionals if you have rights to a cottage as part of a trust, or are considering the use of a trust in your own planning.

Conclusion

It's never too early to start planning for the future of your family cottage. Deciding how and when your assets—such as a family cottage—will be transferred or sold requires thoughtful planning. Whether you choose to pass it on during your lifetime, include it in your estate, or ultimately sell it, cottages often carry unique emotional and financial complexities that deserve careful attention. Exploring all available options can help ensure your intentions are honored while balancing tax implications, family dynamics, and long-term goals.

On one hand, minimizing taxes is essential to preserving the value of your estate for your heirs or philanthropic goals. On the other, you may wish to pass on assets with deep sentimental value—like the family cottage—to specific beneficiaries, even if it comes with a tax cost. Striking the right balance between financial efficiency and personal intention is key.

Your heirs' preferences will also play a role in shaping your plan, but it's important to remember that these preferences can evolve over time. A plan that focuses solely on tax efficiency, without enough flexibility, may fall short of your long-term goals. While reducing taxes is important, it's equally vital not to let the "tax tail wag the dog." Ensuring your assets are distributed according to your wishes—thoughtfully and effectively—should remain the central objective.

If you own a cottage and haven't yet addressed it in your estate plan, we encourage you to complete our Checklist of Considerations. It's a valuable starting point for conversations with your tax and financial advisors, helping you build a plan that reflects both your intentions and your family's future.

About Us

Disciplined. Compassionate. Effective.

Quadrant Private Wealth is an independent, comprehensive, integrated wealth management firm committed to your financial well-being and peace of mind. We take the time to understand your complete financial picture. We tie all of your information together, including tax planning, to paint a picture of what your financial future could look like. And we aim to earn your complete confidence in the process.

Quadrant Private Wealth

Suite 720, One Lombard Pl

Winnipeg, MB

Ph: (204) 944-8124

email: inquiries@quadrantprivate.com

web: www.quadrantprivate.com

If you or someone you know could benefit from our services, please have them contact our offices at 204-944-8124 or email us at inquiries@quadrantprivate.com.

This report may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Quadrant Private Wealth ("Quadrant"). Any unauthorized use or disclosure is prohibited. The information herein was obtained from various sources believed to be reliable but Quadrant does not guarantee its accuracy. It does not constitute tax or legal advice nor is it intended as investment and/or financial advice. Individuals should seek their own professional advice regarding any questions concerning their personal tax situation. Neither Quadrant nor any director, officer or employee of Quadrant accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this report or its content. The opinions, estimates and projections contained in this report are as of the date indicated and are subject to change without notice. Certain of the statements may contain forward-looking statements which involve known and unknown risk, uncertainties and other factors which may cause the results, performance or achievements of the company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Past performance is not indicative of future performance.