



TAX MATTERS

# The five biggest estate planning mistakes of cottage owners



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Cottage season is upon us again. For those of you who own a cottage, cabin or other such vacation home, you're no doubt aware of the pleasures of owning a second property away from the city. As I speak to families across the country, there are five big estate planning mistakes that I see repeated over again as folks contemplate the future of their beloved family retreat.

I used to believe that the first big mistake was failing to remove the outhouse. An elderly cottage neighbour of ours had the misfortune of falling through the floor of his, only to be stuck 10 feet down for about three hours until someone heard him calling for help. So, the family promptly removed the outhouse. A week later, one of their grandchildren was playing outside and, with the outhouse gone, failed to see the hole and fell in. Note to self: If you ever remove your outhouse, fill in the hole.

As it turns out, the outhouse is not the biggest problem. Here are the five common mistakes that cottage owners make when it comes to planning for the future of the property.

**Mistake 1: Failing to clarify who will use the cottage when you're gone.** This issue comes down to who has the ability to stay at the cottage regularly, and who has a desire to be there. Envision life in the future when you're not around. Do your children live close enough to the cottage that they expect to spend meaningful time there? Maybe a child lives far enough away that one or two weeks each year is all they can spend at the cottage. Or perhaps cottage life is not their thing, and are likely to spend just a couple of weekends at the cottage each summer. Have you had this conversation with your children? Don't assume that you know the answer. Gain clarity around this.

What about a child who has no interest or ability to stay at the cottage? It's often a mistake to force siblings to co-own a property when only one will spend time there. You may be better to leave the cottage to one child and equalize the estate by leaving different assets (perhaps life insurance proceeds) to the other children.

**Mistake 2: Failing to figure out a formula for sharing the cottage.** Once you know who is willing and able to spend time at the cottage, and how often, how will they decide who stays at the cottage and when? You'll want to design a framework that the kids can use year after year to figure this out. One example might be to allocate a certain number of days or weeks in each season to each child. Then, like a draft, have each child choose a week in an alternating fashion until all the weeks are taken. Perhaps the kids would like to spend time together at the cottage, and any week shared with one sibling, for example, might count as just half a week toward their total.

**Mistake 3: Failing to plan for future maintenance costs.** Owning a cottage can be expensive. From repairs and maintenance, to property taxes, insurance, utilities, boat storage and larger capital expenditures over time, who will pay for these things? Some parents who have the means will leave money in a trust to fund all or part of these costs if one or more kids will have a problem paying for their share. What happens if a child doesn't pay their share? Should penalties apply (such as less time at the cottage)? Think about these things.

**Mistake 4: Failing to provide a governance structure for decisions.** If your kids are going to share ownership of the cottage, they'll need to have a way to make decisions together. For example, what should be fixed, and when? Perhaps an annual budget that can be agreed upon should be prepared in advance. What major capital improvements should be made, and when? A multiyear budget can make sense so that everyone is clear on this. Finally, will they ever decide to sell the cottage? How will the sale proceeds be divided? Perhaps it makes sense to give siblings the right of first refusal to buy out the others if one or more want to sell.

**Mistake 5: Failing to prepare a cottage agreement.** Business owners usually insist on having a shareholder's agreement when they co-own a company. A cottage agreement is equally important when siblings are going to co-own a cottage. The agreement should address the issues I've raised above, in addition to issues such as having guests at the cottage, who will be responsible for paying the bills, labour at the cottage, rules for staying at the cottage and succession of the cottage.

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