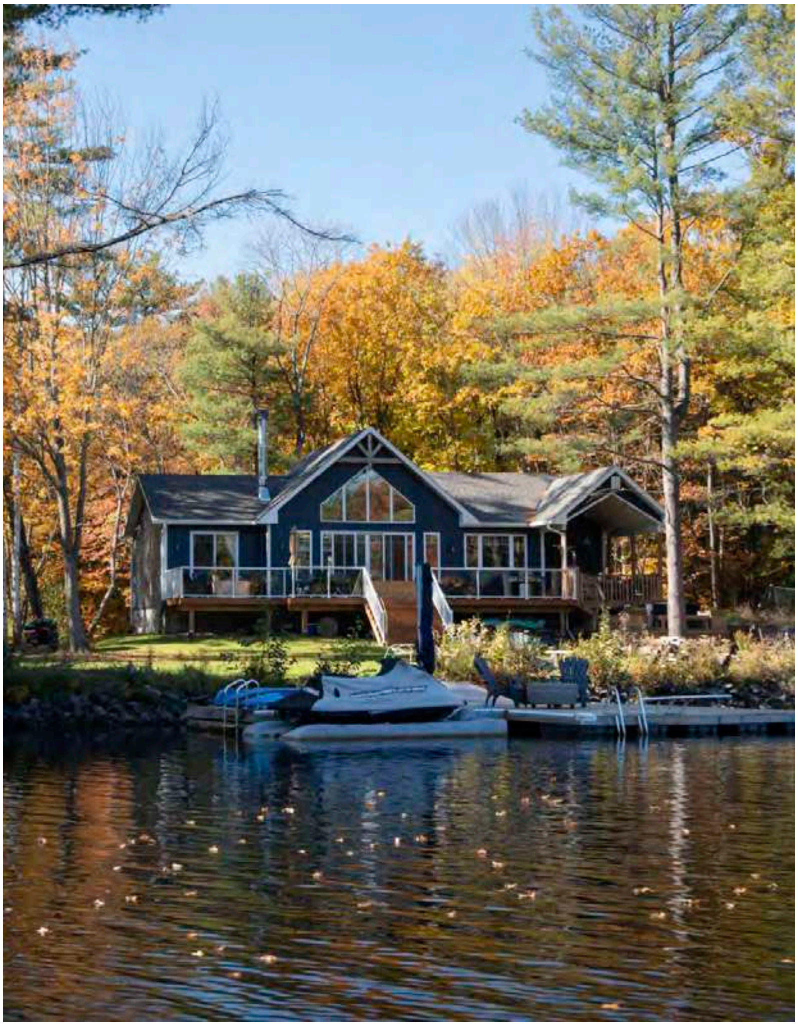

Keep it simple

How to save and ensure the passing of your legacy

SCOTT MORROW

For many anglers and hunters, cottages and hunt camps are synonymous with family, friends, outdoor adventures, and traditions cemented for generations. I can't imagine a season without them. Over my career, I have seen many situations where these traditions have abruptly come to an end. Not for lack of interest, but for lack of planning...

I wrote a story in the spring of 2024 for *Ontario OUT of DOORS* online on how to handle the federal government's proposed capital gains inclusion rate increase from 50% to 66.67% (**oodmag.com/handling-the-capital-gains-tax-hike**). I wrote this specifically because it was going to directly impact anglers and hunters who had a capital gain on their properties of more than $250,000. Fortunately, the proposed increase was scrapped, but it didn't free us from paying capital gains taxes. As a result, we still need to continue tax planning efforts based on a 50% inclusion rate.

The impact

Understanding the impact the death of the last surviving spouse has on the cottage/camp is often overlooked. Not by design, it's just not a fun topic to discuss. When the last surviving spouse dies, they are deemed to have disposed of their property at fair market value. Making sure the estate has the necessary liquidity for this final tax bill is key to a successful transfer of ownership to the next generation.

Here's an example

A married couple, both 55, have owned their cottage/camp for 20 years. They are concerned about the liquidity available in their estate to pay the capital gains tax upon their passing. They desperately want to keep their cottage/camp in the family for the next generation to enjoy. The cottage was where their kids learned how to fish and was used as the hunt camp every spring and fall. Working with their CPA, it was determined they could easily have a $400,000 capital gain on their cottage upon the death of the last surviving spouse – we assumed age 85. At a 50% inclusion rate, that's a $200,000 taxable gain, which effectively is a $100,000 tax bill.

Cost Base (CB): $200,000
Fair Market Value (FMV): $600,000
Capital Gain (FMV-CB): $400,000
Taxable Gain (assumed inclusion rate of 50%): $200,000
Taxes Due (assumed marginal tax rate of 50%): $100,000

A simple decision

The couple purchases a Joint Last-to-Die life insurance policy. If they qualify, they are effectively buying money at a discount for a later date...it's like buying a bond that matures when they die. In this case, the cost is only $106.67 per month to secure a properly structured life insurance policy with a death benefit of $100,000. Over a 30-year period, that's $38,401 to guarantee $100,000 of liquidity for the estate. That's 38 cents on the dollar, with an estate savings of $62,000 to ensure the passing of their legacy for years to come.

Speak to your CPA and financial planner. Sometimes it pays to keep things simple. ●

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