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WEALTH MANAGEMENT INC

Keep the tax auditor out of your cottage

When you 'critter-proof' your cottage this fall, don't leave any room for tax problems to creep in. There are many legitimate tax planning opportunities with second properties, but understanding the rules and keeping good records are critical to avoiding nasty messes in the future.

If you rent out your cottage:
Allowing others to enjoy your cottage when you don't need it is a good way to build your equity faster. Track every expense associated with the cottage so that your accountant can help you maximize deductions. Don't ignore potential deductions just because expenses exceed revenue; some items will not apply fully, and any negative rental income may provide tax reductions against employment or other income.

Consider these opportunities for maximizing your deductions (and check with your accountant if they apply to you):

1. Track mileage and meals for any cottage trips made to prepare for or clean up after renters.

2. Pay your spouse, kids (or grandkids) to help with maintenance.

3. Keep all receipts, for big jobs (such as renovations), little items (such as cleaning supplies) and everything in between (linens, furniture, etc.).

4. If you own the cottage outright but have a mortgage on your home, book a planning session with your accountant. There are many factors to consider but you may be able to make some of the interest deductible if you re-arrange your debt.

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If you are selling the cottage:

If you've owned a cottage for a while you've likely have a substantial gain when you sell it (or transfer the ownership to another family member). If you invest a little time in planning and recordkeeping, you may be able to reduce the taxable portion substantially.

1. If you've owned the cottage for a very long time, then growth prior to 1972 is not taxable, but you need to be able to prove what the market value was on Dec 31, 1971.

2. The principle residence exemption can be used for the cottage instead of your house, but you will need to assess the tax implications for both properties. Get professional advice as soon as possible.

3. Municipal taxes and mortgage interest are NOT allowable factors when computing the taxable gain. They only provide deductions against rental income.

4. Selling the cottage to a family member for less than full market value will not save tax, it will actually lead to double taxation (see below).

If you would like to keep the cottage in the family:

Keeping a cottage in the family means keeping happy times alive, but you can't keep postponing the tax. You can prepare for and minimize the tax impact but you need to invest some time in planning.

1. No matter how you transition the cottage (lifetime gift, sale or bequest) the tax implications to you are the same. You will be deemed to have disposed of it at fair market value, and you will owe tax on any gain.

2. Selling to a family member for a reduced price is the worst possible way to transition a taxable property. You will not avoid tax on the discounted portion, and the new owner will have to pay tax on both the future gain AND the amount you discounted the property. If you want to give away the cottage while alive, have all the paperwork reflect fair market value.

3. Allowing a family member to purchase the cottage from the estate for a discount leads to the same tax problems as above. There are other ways to structure this type of bequest.

There are numerous creative and tax-efficient ways to allow for long term family ownership, but the sooner you make these arrangements the better. You cannot backdate a good strategy, so every year you delay planning is a year of lost opportunity.

With limited political ability to sell us on new taxes, governments are finding ways to disallow questionable or undocumented deductions, and to find unreported income.

Consider these:

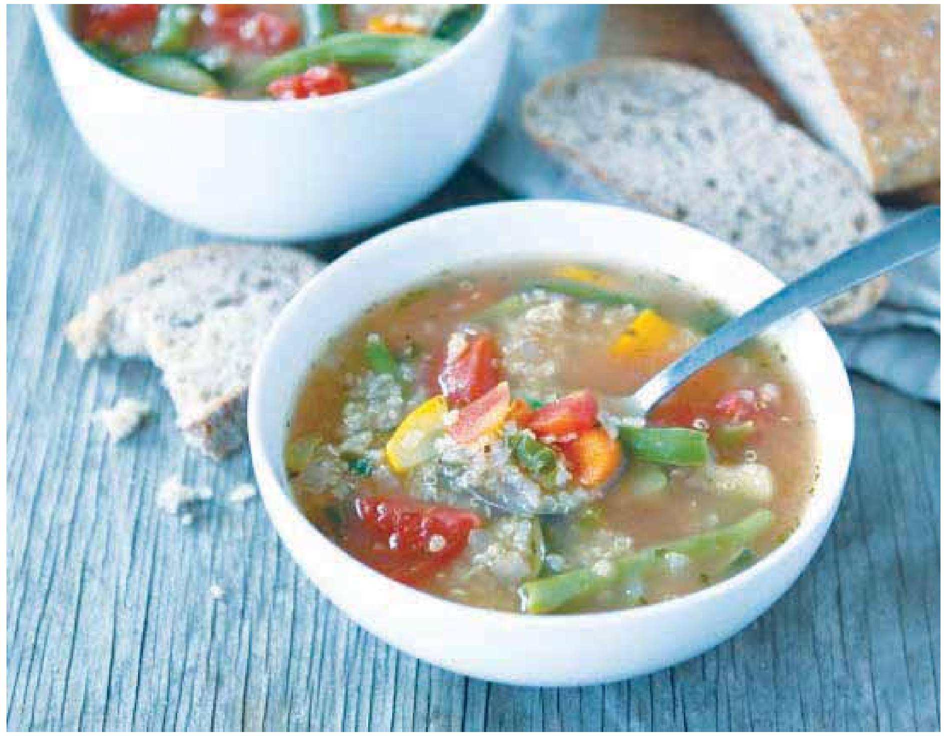
- CRA (Canada Revenue Agency) is increasing the requirement to prove - with documentation - any tax advantage claimed. For example, some accountants are warning clients that CRA may have a project underway to audit the adjustments claimed when calculating the cost base on cottages.

- Rumours abound that some municipalities in cottage country have been asked to provide details of land transfers to CRA. Are they looking for unreported gains?

- And if that is not enough, apparently the IRS (the US tax agency) is hiring people to go door-do-door in certain Florida neighbourhoods questioning whether the occupants own or are renting the property. They are looking for undeclared rental income, and with the new tax agreements, this information will not only lead to US penalties, it will be reported to the CRA as well if the owners are Canadians. Could CRA start doing the same thing in Muskoka some day?

Vegetable Quinoa Soup

Source: www.twopeasandtheirpod.com



Ingredients:

Directions:

1.

2.

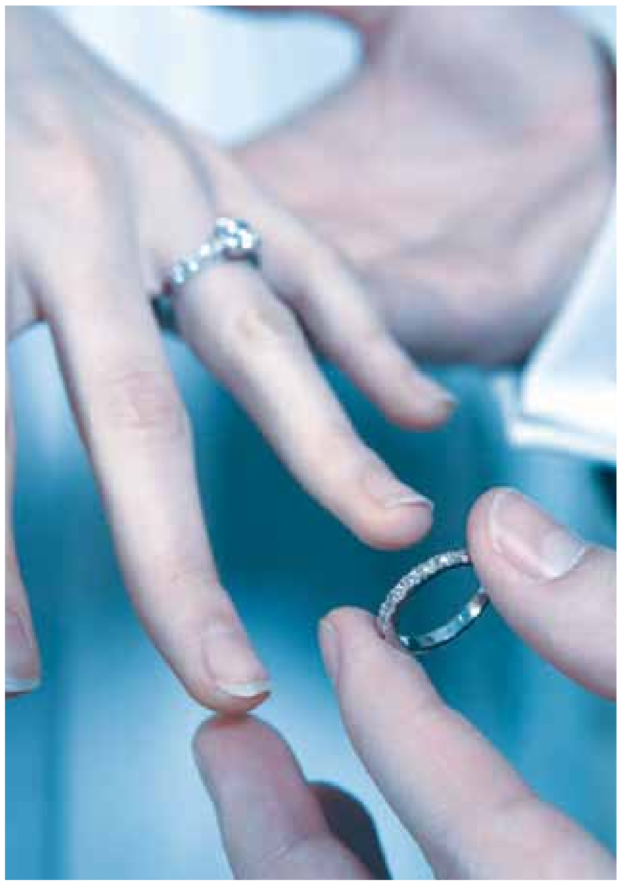
Note:

The Money Talk:
How Your Financial Advisor Can Help Your Marriage

Source: www.bluerockwealth.ca/blog

"Through the journey of your marriage, you will have fights, and the cause of those fights will be one of three things; family, intimacy, or money."

As a bright-eyed young woman preparing for a trip down the aisle many years ago, our family minister sagely offered these words during marriage prep sessions. Ominous sounding at the time, they eventually proved themselves true. (At the heart of it, most of our conflicts indeed, boiled down to one of these three things.)



The Money Talk

While our financial advisor couldn't help much with the family (or the more private matters) his guidance in getting us to have "the money talk" helped us navigate our early years of marriage smoothly. Being open and willing to listen to each other is key during this conversation, and the lessons he taught us still ring true 15 years later.

Here are some tips that proved worth their weight in gold for us:

1 Talk about money

This one seems simple enough, but can be tough if you're not sure where to begin. At any stage of your relationship (including your second marriage) communicating openly about your expectations and financial goals is critical to your success as a couple.

2 Understand your "Why"

It may take a few sessions to get at exactly "why" you make certain financial decisions. Getting a handle on the nature of your relationship with money will help uncover the deeper motivation for your financial choices. Does money offer you a feeling of security? Allow you to enjoy new experiences together? Give you a way to ensure your children are taken care of should anything happen to you? Once you understand "why", the "what" and "how" become simple.

3 Embrace simplicity

Information about investments and complex strategies is readily and abundantly available everywhere you look. Learning to shut out the noise and stay focused on your goals as a couple not only helps you achieve them, but it removes the stress and intensity from the process.

4 Remember your plan is a process

"Would you ever spend a lot of time arguing about whether to take a plane, train or automobile on a trip before you decide where you're going?" This question comes from Carl Richards, CFP and he makes an excellent point. Often, couples are overwhelmed with product options, causing them to forget to focus on the more important matter of where they want to go.

Just like your marriage, your financial plan is a journey. You will need to adjust it over time. Not to accommodate new products (as many institutions would have you do) but to accommodate changes in your life and lifestyle. A trusted financial advisor understands the importance of maintaining a close relationship with you to help you in order to help you make wise decisions that stay in line with your plan as things change.

If you still occasionally find yourselves disagreeing, remember to identify what's important to you both. If you can agree on values and goals, then deciding how to get there is much easier.