



The Ottawa Branch Report

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HOW (AND WHEN) TO PASS ON THE COTTAGE

After the winter that never ended, summer's joys include life at the cottage, with feet up in an easy chair, or paddling across the lake, trailing a fishing line hoping that tonight's dinner will bite the hook. As federal retirees, we know that these are carefree times, but our family's future, if not properly prepared, may bring unexpected challenges, such as how to pass the cottage to the next generation.

Preparing a will to pass real estate to one's children can be complex. Ensuring that one's final wishes are respected through a trust is a possible way forward, as we examined in an earlier article. Things get more complicated when a family cottage is involved. While a principal residence can be sold free of capital gains tax, the sale or inheritance of a cottage, considered a secondary residence, does not pass on tax free.

Canada Revenue Agency deems a cottage to be disposed of a 'fair market value' on death. Any increase in value from date of purchase is subject to

Capital Gains Tax at the owner's current tax rate, with the amount owed to be paid by the estate. This can be a large amount of money.

A non-arm's length transaction (within the family) to sell the cottage to one or several children for a nominal sum is not recommended, as it would not affect the CRA 'deemed disposal' price, but would give the children a very low 'adjusted cost base' or purchase price, from which CRA later would calculate the capital gain when eventually the cottage is sold. While not deferring taxes, by selling the cottage to your children 'early on' and taking back a demand mortgage with deferred payments, CRA permits the tax payable on the capital gains to spread over five years. At the time of your passing, you can forgive the mortgage in your will and the cottage will be left to your child with no debt or taxes payable.

Even before starting tax and estate planning - essential in such circumstances - a family discussion is called for. Do ALL children agree on what to do? Do ALL want to keep the cottage, or are some less interested because of distance to travel, costs involved or other factors? Compensatory arrangements for non-participants can be established. Clear understanding of options and interests of all family members makes planning easier.

If there is a lot of interest in keeping the cottage, an 'inter vivos' trust (set up while you are alive) or a 'testamentary trust' (set up at death

through a will or testament) can become the new 'owner' of the property, with appropriate taxes paid when the trust is established. Alternatively, the kids can take out (and pay for) a life insurance policy that would pay the capital gains tax owed on death. The trust option is useful as it allows for a shared management of the property, but does require continuing participation by family members. Co-ownership by individuals is the other common option, which also requires ongoing participation, but can involve much closer ownership responsibilities.

Each of these approaches has advantages and disadvantages. Some are fairly easy to understand, while other options may create further complexities with family, tax or probate implications. For this reason, it is wise to speak to a lawyer or notary when updating your will. You might also want to speak to a specialist with experience in taxation, insurance or in setting up (and winding up) family trusts. There are ways to address the issues now, but they take a bit of time to understand and to think through their implications. This is best done early on, outside the emotional context of a recent family loss.

Note: The facts and opinions expressed in this article are those of the author, Robert Todd; they should not be understood to necessarily reflect the policy or opinion of the FSNA Ottawa Branch.

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Member of the Mutual Fund Dealers Association of Canada. Tradex services are available exclusively to current and retired public sector employees and their family members.

FSNA DAY AT THE CLASSIC THEATRE FESTIVAL IN PERTH

The Classic Theatre Festival is an affinity partner with FSNA, and this year will be holding its annual FSNA Day at the Festival on Thursday, July 17 at 2 pm. There will be a pre-show talk at 1:30 pm, and FSNA members might also wish to take in the historic theatrical walking tour of Perth at 11 am as well. All tickets to the matinee are 20% off of regular prices (total of \$27.50 per ticket).

Dedicated to producing classic hits from the Golden Age of Broadway and the London Stage, Perth's Classic Theatre Festival, the Ottawa Valley's only professional company, celebrates its 5th anniversary with the hilarious Neil Simon comedy "Come Blow Your Horn," July 11-August 3. Perhaps best known for penning *The Odd Couple*, *The Goodbye Girl*, *Barefoot in the Park*, and *The Sunshine Boys*, among dozens of other plays and Hollywood films, Simon takes a satirical look at the swinging 60s in his stellar Broadway debut. The story of a ladies' man who appears to tire of juggling girlfriends, and his younger brother who idolizes his sibling and wants to follow in his footsteps, the play features trademark Simon characters, from a pair of outrageous parents with unforgettable one-liners to a bubble-headed airline stewardess

smitten with the hope of a Hollywood career, and a less than successful singer whose latest achievement is performing "Why Not Take All of Me" while dressed as a sausage. The festival's second show of the season is the classic mystery-thriller, *Dial M for Murder*, August 8-31. The Festival moves to a new venue this summer, at 54 Beckwith Street East. Shows run Wednesday-Saturday at 8 pm, with four 2 pm matinees on Wednesday, Thursday, Saturday and Sunday. Each matinee is preceded by a 1:30 pre-show talk explaining the history, story, background, and social and cultural context of the play. For special packages, tickets, and more, call toll-free 1-877-283-1283 or visit www.classictheatre.ca

WALK YOUR WAY TO HEALTH

Now that the nice weather is here why not start a walking program? Walking is one of the easiest and safest ways to be active. It is a great form of exercise for you to enjoy by yourself, with family or friends, or as part of a walking group. Walking is something that you have been doing most of your life so you are probably an expert at it already! All you need is a comfortable pair of shoes and you are ready to go.

The new Canadian guidelines for activity recommend that adults and older adults get at least 150 minutes (two and a half hours) of moderate to vigorous aerobic activity each week. Following these guidelines can help lower your risk of heart disease, stroke, high blood pressure, type 2