

Recreational Properties

I recently enjoyed a one-week vacation at a lake cottage with my family. Not owning a cottage myself, and not having vacationed at a lakeside cottage for many years, I was reminded how wonderful it was to spend time at a lake, enjoying the sun, sand and water and running countless trips in and out of the lakeside sauna. It reminded me very much of my own childhood when trips to the lake were a common summertime experience. Watching my own children enjoy these simple pleasures was a joyful experience.

Lakeside cottages and other recreational properties are wonderful amenities for people who are fortunate enough to own one. Memories of the times spent at these places are filled with nostalgia. Not surprisingly, people who own recreational properties want to keep them in the family for the benefit and enjoyment of future generations. While most people seem not to be emotionally attached to the home in which they grew up, it is a different matter when the property in question is a recreational property. The emotional attachment that a person can develop to their family's mountain cabin or lakeside cottage is powerful indeed. But before a person gets too far along imagining the idyllic scenes of their children and grandchildren sharing tranquil moments at the lake, there are some practical issues that should be addressed from an estate planning perspective.

The first and most important issue to be addressed is the issue of capital gains taxes. Recreational properties—especially those that have been in the family for a long time—can give rise to significant capital gains taxes. For example, a cabin purchased for \$25,000 years and years ago could be worth \$450,000 today. That could give rise to a tax bill of over \$80,000 on death. Will your estate have the cash needed to pay the capital gains taxes that will arise on your death? Can your children come up with the money to pay the taxes that will become due? Or will the property have to be sold to pay the taxes? Some people take out life insurance to ensure that cash is available at death to pay the taxes that become due in order to keep the recreational property in the family.

Another factor to consider is the practicality of keeping a recreational property in the family. If you plan to keep your property in the family by giving it to two or more of your children, think about how well that will actually work. Shared ownership usually means shared responsibility for maintenance, utilities and property taxes. Will your children be able to work out a shared use arrangement among them? Or will there be squabbles among them about who broke this and who paid for that and who gets to use the cottage on the long weekends in the summer? Be realistic about this! Family members can be especially prone to disagreement where something emotionally important—like a cottage—is at stake.

If you are thinking about leaving the cabin or the cottage to your children, talk to them about it. Find out how they would approach the problem of shared ownership. There is a multitude of estate planning strategies for dealing with the challenges of recreational property ownership. Done right, future generations will enjoy those moments of idyllic tranquility at the lake. Done wrong, and the stage is set for family disputes that could cloud all those nostalgic memories.