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Questions? Call (613) 726-7788
and we will be happy to
address any of your questions.

Succession Planning for the Family Cottage

Yours, mine and heirs

Succession planning is a sometimes complicated matter that many choose to delay or avoid altogether. However a little time spent on proper planning will save you and your family headaches in the future. Particular attention must be paid to non-liquid assets such as the family cottage. There are a number of questions that you should ask yourself and your potential heirs when deciding what to do with the family cottage.

Is the cottage worth more than its market value?

A cottage that has been in the family for generations is typically more valuable to the family than what a third party may be willing to pay for it. Would you like to preserve the cottage in the family or are there no restrictions to simply selling it and converting the property into cash? Input from your heirs is vital as only they can tell you whether or not they would want to and can afford to continue to use the property.

How will you divide the estate?

Provided that there's more than one heir, will you be able to provide each one with the value that you would like to? If a cottage is given to one heir, there may not be enough of other assets to distribute to others. An option here is to allow one of the heirs to purchase the cottage from the estate. This preserves the cottage within the family as well as retains the value in the estate.

Transfer ownership now or later? When a cottage is transferred to the next generation of family members, there is a deemed disposition at fair market value for income tax purposes. Depending on the length of ownership there may be significant appreciation in the value of the cottage, which may trigger a hefty tax bill. It is possible to reduce or defer the income tax bill with appropriate planning.

One example of a planning opportunity is to use the "principal residence" exemption when the cottage is disposed. To fully shelter the gain, the cottage must be designated and qualify as a principal residence for every year of ownership and not just the year of sale.

If the disposition of the cottage occurs as a result of death, there is also a deemed disposition at fair market value, unless the cottage is left to a surviving spouse. In this instance tax on the deemed disposition may create a cash requirement for the estate. Are there sufficient liquid assets to pay the estate taxes?

Some families transfer the cottage to a trust, however this leads to an immediate disposition for income tax purposes. The trust is also subject to a deemed disposition of its assets every 21 years.

As you sit on your deck enjoying a sunset, take a moment and reflect on your plans for your cottage. We would be pleased to assist with your planning. ■

GST/HST Accounting Thresholds

To simplify GST/HST compliance for small businesses, the streamlined accounting thresholds have been proposed to be doubled, generally for GST/HST reporting periods that begin after 2012.

Quick Method

The annual taxable sales threshold at or below which an eligible business can elect to use the "quick method" to determine the amount of GST/HST to remit is proposed to be increased to \$400,000 (from \$200,000) of GST/HST-included taxable sales.

Streamlined Input Tax Credit Method

The annual taxable sales and taxable purchases thresholds at or below which an eligible business can elect to use the "streamlined input tax credit method" to determine input tax credits are proposed to be increased to \$1 million (from \$500,000) of taxable sales and to \$4 million (from \$2 million) of taxable purchases. ■

What's New at McIntyre & Associates

We say goodbye to Susan Bertrand as she begins her transition towards retirement. Susan is starting a new chapter in her life that will give her more time to do the things she loves and more time at the lake. We wish her all the best!

We are pleased to welcome Gabe Poirier and Sean Stinson to the McIntyre & Associates team.

Gabe joined our firm on May 23. As a CGA, Gabe brings with him several years of accounting experience. Gabe has joined our Customized Account Management Group.

Sean joined our administration group on June 18 and will be the first to greet you at reception. ■

CRA's Prescribed Interest Rates

The prescribed interest rates for the third quarter of 2012 are as follows:

- 1% to calculate a deemed interest benefit on subsidized employee and shareholder loans;
- 3% on refunds of income tax overpayments; and
- 5% on payments of overdue income taxes, insufficient income tax instalments, unremitted employee source deductions, CPP contributions or EI premiums, and unpaid penalties.

These rates are in effect from July 1, 2012 to September 30, 2012.

Reminder

Please note that our Office and Drop Box are closed on Fridays during July and August.

McIntyre & Associates Professional Corporation

The opinions and advice in this newsletter are provided for the general guidance and benefit of McIntyre & Associates' clients, based on information that we believe to be accurate. We cannot guarantee its accuracy or completeness for individual circumstances. While we strive to provide reliable material herein, we cannot account for all industry conditions and legislative changes that occur. Should you have any questions or concerns regarding the contents of this newsletter, please contact us.

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