

# **Selling the Cottage**

What you have spent on your cottage can have an impact on what you may ultimately pay in tax when you sell. The gain is the difference between the proceeds of sale and the ACB and any selling costs. ACB refers to the total of the initial purchase price of the property plus any additional qualifying capital expenses made over the years you have owned it. Note that if you inherited your cottage from anyone except your spouse, the initial cost will be the FMV of the cottage at the time you inherited it. There are also additional considerations if you or your spouse owned your cottage prior to 1972, or if you or your spouse made an election in 1994 to increase the ACB of your cottage by using the \$100,000 capital gains exemption available at that time.

## **Frequently asked questions about capital gains when selling a cottage in Canada**

Do I pay capital gains when I sell my cottage?

- If your cottage has risen in value since you purchased it and is not your primary residence, you will pay capital gains tax on the appreciation.

Can I gift my cottage to a child and avoid a capital gains tax?

- Gifting your cottage to your child will not avoid capital gains taxes.

The accompanying checklist can be used to identify the key elements to consider when determining the ACB of your cottage and the type of documentation you should retain to support those amounts.

# Checklist of cottage ACB components and required documentation

Keeping accurate records of the cost of your cottage is crucial should the CRA ever ask for support for the ACB of the property. Proper records include the original purchase documentation you received when you bought the cottage, plus any invoices or receipts that support subsequent renovations or improvements:

## Original acquisition of the property

Elements from the Purchase Agreement and other costs (documented by invoices, statements, and proof of payment) include:

- Purchase price of the cottage, if purchased after 1971 (there are additional rules applicable to properties owned on Dec. 31, 1971, or if you made an election in 1994 to increase the ACB).
- If inherited or received as a gift, evidence of the value at the time of the gift or inheritance such as a valuation.
- Land transfer taxes on acquisition.
- Utility connection costs.
- Real estate commissions.
- Real estate inspections.
- Legal fees.
- Cost of a survey or title insurance.
- Other purchase agreement disbursements, other than reimbursements to the former owner, for annual costs such as property taxes and utilities that were paid before closing.
- Repairs and maintenance related to properties acquired in a state of disrepair. Generally speaking, it may be possible to include costs that wouldn't ordinarily qualify in the opening ACB such as costs related to replacing a roof, buying new fixtures, plumbing, replacing flooring, etc. The key is that the state of disrepair was factored into the purchase price (i.e., the price would have been higher if the cottage was in better shape and these costs were incurred for that reason).

# Improvements not directly related to the building

Make sure you include any improvements to the land that aren't related to maintaining current elements. Costs can include a new septic system, a new well, a water system, etc. Also, ensure that you include any improvements to the land such as correcting drainage problems, building a driveway or right of way, pathways, or fixed decks and docks. Moveable items won't generally qualify (although the definition of moveable should be carefully considered from a practical perspective). Documentation needed includes invoices and proof of payment.

## Renovations

Any change to the structure of a cottage that creates something that wasn't present before will generally qualify as an addition to ACB. Documentation will include invoices (including details on the nature of the work as an improvement) and proof of payment.

Examples include:

- Adding new rooms or finishing a basement
- Building a new deck or replacing an old deck with a larger deck
- Moving walls or partitions inside the structure
- Creating a new bathroom, including the cost of fixtures

## Ongoing maintenance vs. building improvements

Probably the most difficult task is deciding whether repairs and maintenance costs are an ACB addition or just an ongoing expense that cannot be included in ACB. Generally, the test is whether the structure was improved versus just returned to a previous state of repair during your period of ownership.

A good example is a new roof. If the cottage's roof was in good shape when you acquired the cottage, then there is a strong argument that just replacing the shingles is

an ongoing cost. However, if you replace a roof with a different and higher quality type of roofing, that cost could be an ACB addition. A key element to consider, in addition to having documentation similar to that described so far, will be whether the documentation highlights why an improvement was made. Other examples where an improvement may have been made include:

- New windows and doors
- New flooring and panelling
- Replacing bathroom or kitchen fixtures

A final note for those do-it-yourself (DIY) cottagers—you can't capitalize the imputed cost of your own labour for a DIY improvement, but you can capitalize the cost of the materials you used for the improvement.

For more information, or you have questions, please contact us.



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