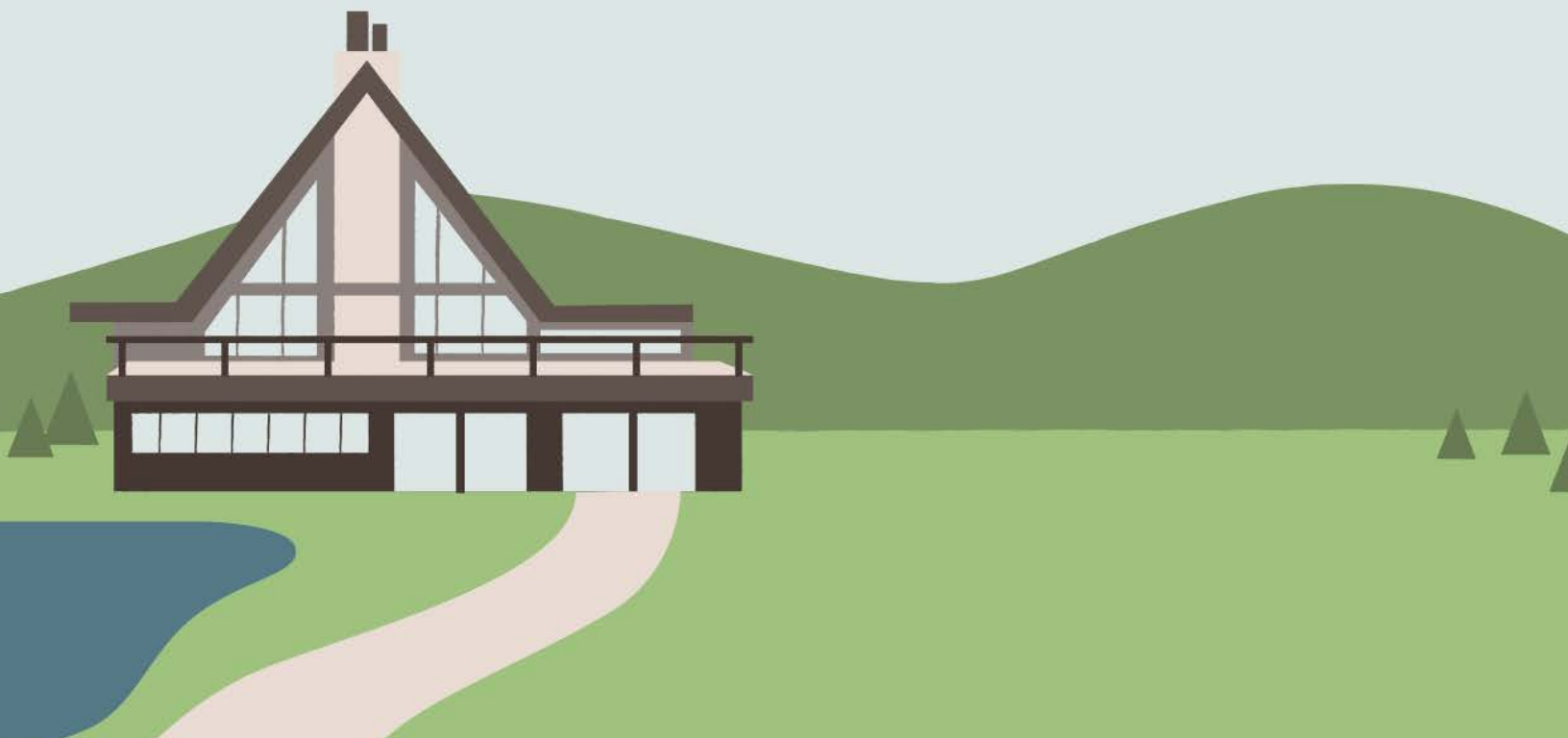


## **Vacation Property: What you need to know before you buy.**

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One of the great things about living in Canada is the variety we get to enjoy when it comes to seasons and landscape. We can enjoy beaches in the summer, snow sports in the winter, and lakes, forests, islands and vineyards are open to explore any time of the year.



If you've rented a vacation property in Canada in the past, you may already have an idea about the location, amenities, activities and distance you're willing to travel to escape city life. These factors become even more important if you're thinking of buying instead of renting, as you are committing more of your time and money. Because owning a second property may affect your financial plan and your estate, here are some key aspects to consider.

## Financing your purchase

Are you planning to rent out your property or will it be for personal use only? The answer can affect your financing abilities.

Rental properties can be seen as a higher risk by some financial institutions, so more stringent qualifying criteria may apply than if the property were for personal use only.

Regardless of whether or not you plan to rent it out, the required minimum down payment to qualify for an insured or non-insured mortgage can vary on any property that is not owner-occupied. If you have sufficient equity in your current home, you may be able to borrow against it to achieve your financial goals.

## Total cost of ownership

Just like your home, your vacation property will have ongoing expenses, from property taxes to utilities. Depending on the location and whether you plan to use the property year-round, you may also need to pay for home heating and snow removal. Take ongoing costs into account when determining your budget.

Insurance for your vacation property may be more expensive than the insurance on your primary residence, and certain risks may not be covered. It's a good idea to shop around to compare coverage and premiums.

## Looking ahead

Even if you plan to enjoy your vacation property for decades, at some point it will change hands --- and there will be tax issues to consider. When you sell your vacation property or transfer ownership to your loved ones, including if you pass away (other than to your spouse or partner), any increase in the value of the property from the time you acquired it may result in a taxable capital gain.

There are a number of strategies that can help minimize or defer the capital gains tax.

[Claim the principal residence exemption.](#) If your vacation home qualifies as your principal residence, any capital gain may be fully or partially tax-free. The catch is that you and your spouse can claim only one property as your principal residence in any given year. So if you own both a vacation property and a home, you'll need to decide whether to claim the exemption or save it for the remaining property.

**Set up a trust to hold the property.** An alternative way to own a vacation property is through a trust, naming appropriate beneficiaries of your choice. While the trust actually owns the property, if you are a beneficiary of the trust, generally you could enjoy the use of it for your lifetime. The property may often be distributed from the trust to the trust beneficiaries with no immediate tax implications — the taxable capital gain is deferred until the beneficiaries sell or transfer the property.

Note, however, that under tax rules, capital gains on assets held in trust need to be recognized every 21 years. This recognition would trigger a capital gain, which could affect the trust beneficiaries' ability to claim the principal residence exemption. You would need to consult with a qualified legal advisor to set up the trust and understand all the legal and tax implications.

**Purchase life insurance.** One of the most common ways to manage taxes that can arise on death is to purchase life insurance. Life insurance won't eliminate or defer tax. Rather, it can be used to offset the tax liability of your estate.

## Get advice — before you buy

As you can see, there are lots of things to think about when purchasing a vacation property and we're here to help.

**Talk to your CIBC Imperial Service® Financial Advisor | call 1-888-839-7298**

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