



Are you sure your family cottage will stay in your family?

Sometimes a little planning can make your dreams for the future come true!

Here's the problem:

When you die, your assets can be transferred tax free to your spouse. **But**, when your spouse dies and the assets are passed on to your children or other heirs, this transfer may result in a significant tax bill. And this tax is paid **before** your heirs get anything.

An asset like your principal residence is exempt from this type of taxation. Generally, your cottage won't be exempt and it will be considered a capital asset. Consequently, it may trigger a capital gains tax liability at death.

With the recent real estate boom in Canada, cottages and other vacation properties have increased significantly in value. These properties are now worth substantially more than their purchase price. At death, 50% of this increased value is subject to taxation.

Are you aware of the impact this capital gains tax liability could have on your estate? A lack of proper planning could mean that your family cottage won't stay in your family. Your estate might need to sell it to pay the tax.

It's a tax time bomb that most people are unaware of and don't plan for.

What are your options?

A number of different options will provide the cash required to pay this tax liability at death. It's important to make the best choice for your situation.

The alternatives:

- You or your family can start saving today,
- Your heirs can borrow the required funds from a bank,
- Your estate can sell the asset, or
- You can purchase life insurance to cover the growing tax liability.

The best solution:

Life insurance is often the most cost-effective planning tool to cover the tax liability at death. Life insurance provides cash to pay the tax exactly when it's needed, helps ensure your heirs receive what you intend them to receive and puts your mind at rest because you know you've taken care of this important issue.

A little planning can ensure that your dream of passing the family cottage to your heirs will come true.

Here's an example that shows the growing problem:

20 years after the cottage was purchased

Asset type	Market value	Original cost	Capital gain	Tax payable*
Cottage in the Muskokas	\$ 600,000	\$ 100,000	\$ 500,000	\$ 112,500
Cottage in PEI	\$ 150,000	\$ 25,000	\$ 125,000	\$ 28,125

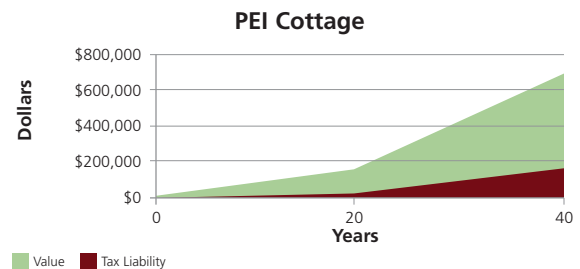
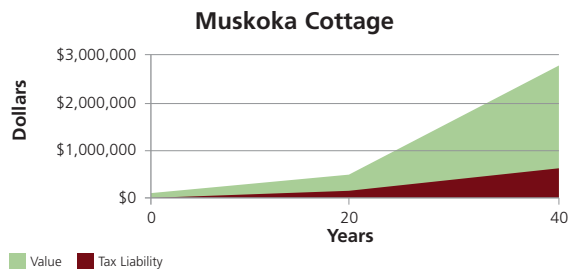
*Assumes 50% of Capital Gain is taxable at a personal rate of 45%.

40 years after the cottage was purchased

Asset type	Growth rate	Future value	Original cost	Capital gain	Tax payable*
Cottage in the Muskokas	8.00 %	\$ 2,796,574	\$ 100,000	\$ 2,696,574	\$ 606,729
Cottage in PEI	8.00 %	\$ 699,144	\$ 25,000	\$ 674,144	\$ 151,682

*Assumes 50% of Capital Gain is taxable at a personal rate of 45%.

Growing value means growing liability



Life insurance – the better choice!

- Life insurance allows you to custom design a solution to meet your specific needs
- It creates immediate estate liquidity to pay for the tax
- You can choose a death benefit that increases over time to match the growing tax liability
- You can customize the amount and number of deposits you make into the plan to suit your needs
- Certain insurance products offer a broad range of investment accounts, if you choose to invest money in your policy over and above the cost of the insurance it provides
- Your advisor can use the expertise of tax and estate planning professionals to help with complex situations

Contact your advisor to discuss this innovative financial planning tool.

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