MONEY
DUE REWARDS:

Greg Southwell

Investing for the Kids

For those parents who are reasonably comfortable in terms of income or assets, the question of investing for the next generation generally arises sooner or later. After all, we love our kids and we are concerned about their future. One way of dealing with those concerns is to make some sort of savings commitment on their behalf. While intentions are often good, putting them into practice is not entirely straightforward, because there is a wide range of possible strategies and many issues to consider.

Perhaps the first decision to be made, is whether to invest the money in the child's name, a parent's name, or in some other structure. Many years ago, it became popular to invest money in children's names in order to reduce the tax payable on investments. Unfortunately, this was stopped in the 1980's by the introduction of the special tax rules concerning the "unearned" income of minors. Effectively, these rules now tax the income from children's investments at penalty rates once they exceed a threshold of roughly $1,600.

Another issue worth noting is that if a child's account is being operated and used by a parent for his or her own benefit, then the Tax Office is likely to assess the parent rather than the child on any income. This will not happen if the child genuinely has the use of the funds, however parents should consider carefully whether this is what they really want. After all, giving them lots of cash at a ripe young age may not be the most character building way to raise a youngster.

The next possibility is to invest in the name of a non-working or low income parent. While this may be feasible from a taxation point of view, it is important to also consider the possible loss of Centrelink entitlements which this may trigger. Also relevant is that Capital Gains Tax could be payable if the investments are transferred from the parent to the child at some later time.

If neither of the above scenarios is satisfactory, you may consider other structures, such as family trusts, investment companies and even super funds. While these are generally more expensive from an administration point of view, they do have a number of advantages. Family trusts are very flexible in terms of taxation, and can be readily handed over to the next generation when the time comes. Where children are working, a less costly strategy may be for a parent to contribute $1,000 each year to their child's superannuation, in order to access the government co-contribution.

Older parents or grandparents who are reliant on Centrelink benefits also need to be careful if they gift substantial amounts to the youngsters. These can impact their entitlements if they exceed $10,000 in a year, or $30,000 over any five year period. Where provision is to be made for a child in a will, consider the possibility of using a testamentary trust structure, as this could make the inheritance go a lot further due to the tax savings.

It is not uncommon for parents or grandparents to have a desire to help their young ones financially, however there are a number of surprisingly complex issues to consider in order to do so effectively. The result is that such intentions are often not carried out in practice. Speak to a professional advisor with a good knowledge of these issues if you are considering such a move for your family.

Greg Southwell and Dawson & Partners Financial Services are Authorised Representatives of Lonsdale Financial Group Ltd, an Australian Financial Services licensee. He is also a SMSF SPECIALIST ADVISOR™, a CA – Financial Planning Specialist, and a director of Dawson & Partners - a Cootamundra based accountancy and financial advisory firm. Greg is contactable on 02 – 6942 1711, or at gsouthwell@dawson.com.au.
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