INSIGHTS

SUMMER 2019

FINANCIAL ISSUES AFFECTING YOUR LIFESTYLE

GIVE A GIFT NOW OR AN INHERITANCE LATER?

It's natural to want to give your children a financial helping hand, but make sure you don't compromise your own financial future.

Some older Australians want to share their wealth while they're still alive, rather than waiting to leave it in their Will. That way they can enjoy helping their children buy a home or paying for their grandchildren's schooling.

There are plenty of ways to give your family members a financial boost. Each has its own benefits and drawbacks, so think carefully about which option is right for you. And while it's great to see your loved ones benefit from your help, you need to make sure you'll have enough money left for yourself.

How gifting works

Your first thought might be to give your child a sum of money – for example, to put towards a house deposit. When you give away your assets for free, or transfer them to someone else for less than their market value, Centrelink refers to this as 'gifting'.

Your child generally won't be taxed on this kind of gift unless they decide to invest the money. However, you need to be careful if you're currently receiving a government benefit that's calculated based on your income or assets, such as the Age Pension. In this case, there are strict limits on how much you can gift to other people, including your children.

Whether you're single or a couple, the gifting limit is $10,000 in any one financial year, with an additional limit of $30,000 in any five consecutive financial years. For example, if you made gifts of $10,000 each year for five consecutive financial years you would exceed your gifting limit in the fourth and fifth year. Going over these limits could affect your Age Pension or other Centrelink entitlements.

If you make a gift that exceeds these limits, you need to tell Centrelink within 14 days. Any gifts you've made in the past five years that are over the gifting limit can also be assessed under the income test and assets tests. So it's worth speaking to your financial adviser before gifting to see if it might impact your benefits.

As well as cash transfers, other gifting examples include:

- handing over a business or trust
- selling an investment property to your child for less than it's worth
- buying your child an expensive item like a car
- paying your child's loan where you acted as the guarantor
- putting money directly into a family trust that you don't control
- 'forgiving' a loan your child hasn't repaid to you.

Investing in their future

Gifting shares is another way to help out your kids or grandkids. But rather than giving them money for something specific, it's about providing a financial foundation that will potentially grow in value over time.

Minors usually can't buy or sell shares – so if your child or grandchild is underage, one option is to hold the shares in trust and then transfer ownership when they turn 18. But remember, you may be liable for capital gains tax if the share value increases between the purchase date and the transfer date. You also need to consider the tax implications of any investment earnings, so it's worth talking to your accountant and financial adviser first.

Another option is to take out an insurance bond – also known as an investment bond or growth bond. As with managed funds, insurance bonds offer a range of investment options and you can add to the investment (within limits) over time.

Earnings are taxed at 30%, which may be lower than your marginal tax rate. You'll also be taxed on any amounts you withdraw, but all withdrawals are tax-free once you've held the bond for 10 years.

Most insurance bonds allow you to purchase the bond in the child's name if they're at least 10 years old. You may also be able to purchase the bond in your own name and then transfer ownership, without capital gains tax consequences, once the child reaches a nominated age. This means your child or grandchild can directly own the bond without the tax liability associated with other investment options.

However, if the child makes a withdrawal from an insurance bond before the age of 18, they'll be charged a high penalty tax rate. Insurance bonds are designed to lock away the investment for at least 10 years, so it might not be a suitable option if the money will be needed before then.

Also, remember that if you're transferring any assets into a financial investment for a child or grandchild, the Centrelink gifting limits apply ($10,000 per financial year, limited to a total of $30,000 in five consecutive years).

Put yourself first

Any financial decision you make for your family can have a major impact on your own financial security. So no matter how much you want to help your loved ones, it's important to consider your own needs. The last thing you want is to risk running out of money before your retirement ends.

Also bear in mind the emotional disruption financial matters can cause. For instance, if you give or lend money to one child but not another, this can lead to family tensions and even legal battles. Proper documentation is also essential, and should take into account all possible scenarios – for example, whether your child's spouse can make a claim for the assets in question if they get divorced.

Finally, it's vital that you don't feel pressured or even bullied into giving or lending money to family members. If you feel like this is happening, tell someone immediately, such as your financial adviser or someone else you trust. You can also visit ASIC's MoneySmart website to find contact details for a range of organisations that help victims of financial abuse.

Your adviser can also help with all your estate planning needs. They'll clearly explain your options so you can help your loved ones – now and in the future – while still enjoying a comfortable lifestyle yourself.

KEEP YOUR SPENDING UNDER CONTROL THIS SUMMER

‘Tis the season for spending. Here are five ways to avoid breaking the bank during the Christmas period.

The summer months can be a time of heavy spending for many Australians, particularly in the lead-up to Christmas. In fact, we spend an average of $573 on presents alone.[1]

For many of us, this puts a major strain on our credit cards. And instead of giving our finances the chance to recover, we continue spending big on summer holidays before being hit with expenses like school fees for the year ahead.

But with smarter spending decisions, you can start off the new year on the right foot and avoid falling into a debt spiral. Here’s how to do it.

1 Set a realistic budget

If you’re among the 56% of Aussies who don’t set a budget for their Christmas purchases, it’s easy to deplete your bank balance.[2] And once you run out of cash, you’re more likely to reach for your credit card or use a buy-now-pay later service like Afterpay to cover your Christmas expenses.

Setting a budget is the best way to keep your spending under control. First, think of the different categories you’ll need to spend money on – for instance, gifts, social events and Christmas Day groceries. Then, allocate a specific amount to each category.

2 Factor in travel expenses

Australians love to travel in summer, whether it’s to visit relatives or to relax on a beach in January. But remember, the costs can quickly add up.

When you’re working out your budget for the holiday period, take your travel plans into account so the costs don’t creep up on you. Start by factoring in all your expenses like flights or fuel, accommodation and insurance. And if you set a spending limit for each day’s food and entertainment, it will help you resist the urge to splurge.

3 Be a savvy Santa

Many Christmas shoppers are tempted to overspend in pursuit of the perfect gift. You can avoid this trap with some upfront communication with your loved ones – for example, by agreeing to a price limit per gift or organising a Secret Santa where everyone just buys for one other person.

Plus, there are plenty of other ways to keep costs down. You can browse different retailers online to compare prices, or see what’s available on auction websites like eBay. You might also pick up some bargains at factory outlets or second-hand stores, or else try your hand at making gifts.

4 Track your spending

Research shows that almost 4 in 10 Aussies don’t keep track of what they spend around Christmastime.[3] But when you’re trying to stick to a budget, it’s essential to keep a close eye on where your money’s going.

Fortunately, there are plenty of phone apps available from Google Play or the App Store to help you do just that. Some apps can be linked directly to your bank accounts so you can track all your debit and credit card transactions in real time.

By getting a quick snapshot of your spending while you’re out and about, you can see when it’s time to tighten the reins. And remember, spend-tracking apps aren’t just for Christmas; you can use them to keep an eye on your finances throughout the year.

5 Plan ahead for next year

If you’re not financially prepared when the festive season rolls around, you’re probably more likely to panic-spend. But once you’ve drawn up a budget for these holidays, you’ll also have an idea how much you’ll need to cover the same costs next year. You can then start putting money aside throughout the year to avoid overstretching yourself in December.

One option is to link a high-interest savings account to your everyday account, and then deposit a small amount from each paycheque via direct debit. Without having to think about it, you’ll soon build up a cash reserve that could help remove much of your end-of-year financial stress.

Struggling to budget and save? Your financial adviser can provide the guidance you need, not just for Christmas but all year round.

1 CBA, *Christmas consumer spending study*, 2018. The Commonwealth Bank Christmas consumer spending 2018 study was undertaken by ACA Research in November 2018. Results are compiled from an online survey of 1,044 Australians 18+, with quotas set based on the latest population estimates sourced from the Australian Bureau of Statistics.

2 CBA, *Christmas consumer spending study*, 2018.

3 CBA, *Christmas consumer spending study*, 2018.

Q&As

Q: My husband and I would like to buy some shares for our two school-aged children. Are there rules around how many shares we can buy for each child?

A: There's no limit to the number of shares you can buy for your children. However, there may be tax implications depending on how much the shares earn and whose name they're in.

If you buy the shares in your children's names, you'll need to quote each child's tax file number. Otherwise, any dividends they receive will be taxed at 47%. If either child's shares earn more than $416 in a financial year, you'll also have to lodge a tax return on their behalf and declare their dividends. If they earn less than $416, you can apply to the ATO for a franking credit refund. Remember, investment income in excess of $416 earned in a child's name is subject to penalty tax rates of up to 66%.

Another option is to buy the shares in your own name and then transfer ownership after your children turn 18. In this case, you'll need to quote your own tax file number when you buy the shares. You'll also need to declare any dividends on your own tax return each year. When you transfer ownership to your children, you may also be liable for any capital gains or losses you've made since the purchase date.

Q: I'm 32 years old and saving for a house. I heard that I can use salary sacrificing to buy a house using my super. How does this work?

A: Under the federal government's First Home Super Saver Scheme, you can make voluntary salary sacrifice contributions to super then withdraw the net amount[4] and put it towards a deposit on your first home. If you're buying the property with a partner, sibling or friend who is also a first home buyer, they can access the scheme as well.

You can each contribute up to $15,000 of voluntary contributions in a financial year under the scheme, up to a maximum total of $30,000. Because salary sacrificed contributions are taxed at just 15%, you could potentially save for a deposit faster this way than by putting your after-tax earnings into a savings account.

To get started, set up a salary sacrifice agreement with your employer. When you're ready to withdraw the money from your super, you can apply to the ATO for an estimate[5] of the amount available to withdraw. Either before, or within 14 days of signing a contract to purchase or build your first home, you can then apply to the ATO to release the amount from your super fund.[4]

But remember, you can only release this money once, and it must be used towards buying or building your first home within 12 months. You also have to live in the property for at least six months during the first year of ownership.

Q: My daughter is looking to buy her first home and I'd like to help her pay for a deposit. I can't afford to give her the money outright because I'm on a part pension, so I'm planning to lend it to her at no interest. Is this the same as gifting the money?

A: If you lend money in a personal capacity, the gifting rules don't apply as long as there's a clear intention for the money to be repaid. So you'll need to provide proper documentation of the loan to Centrelink to ensure your reduction in assets isn't treated as a gift.

Charging 0% interest can be a tax-effective option because the repayments you receive won't affect your tax position. The loan amount won't count towards your daughter's assessable income either, as it's considered a debt.

However, for Centrelink purposes, the outstanding loan amount will still be considered to be a financial asset that earns a certain amount of income – even if you're not receiving any interest. So while a no-interest loan allows you to help your loved ones, it does not reduce your income or assets for Centrelink.

Before making any financial decisions, speak to your financial adviser if this strategy is right for you and your family.

4 You can request to release 85% of gross salary sacrifice contributions plus associated earnings. Associated earnings are calculated by the ATO at a rate of 3.98% pa, and do not reflect the actual earnings in the fund, which may be more or less than 3.98%. The ATO will withhold tax at your marginal tax rate on any amounts of salary sacrifice contributions released. You will receive a tax offset equal to 30% of the assessable amount released via your income tax return. The 30% offset effectively refunds the 15% contributions tax and up to 15% of your marginal tax rate on the assessable amount released.

5 This is called a FHSS determination and you must apply for your determination and receive it, prior to signing a contract to purchase or build your home, otherwise you will not be eligible to withdraw funds under the scheme.

SPEAK TO US FOR MORE INFORMATION

We're here to discuss any questions or concerns you may have.

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