Early inheritances: why you should know the financial and family traps

Handing over an inheritance while you're still alive can be a powerful feel-good move, but also brings potential problems that experts say parents should understand.

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Early inheritances are growing in popularity as senior Australians live longer and richer lives and house prices soar beyond the reach of many young adults.

Many retirees face a big question: give money to their adult children now, or wait until they die when the children are potentially much older and don't need the financial help.

Financial strategists warn there are potential pitfalls around tax, pensions, superannuation and family fights, so it's wise to do your research before acting, and seek professional advice if uncertain.

Rule number one is to avoid giving away more than you can afford: retirement is becoming increasingly expensive and most people don't want to see their overly-generous parents struggle.

MBA Financial Strategists director Darren James says his firm is seeing more parents consider handing out early inheritances.

"Those people would like to see their kids benefit now when they really need it, rather than giving it to them when they're 50 or 60," he says.

James says parents should first consider future aged care costs, and understand that money they give to an adult child could end up with an estranged spouse in a break-up.

"Look at the tax implications – not just for you but also for the people you are giving it to," James says.

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Parents are helping out young home buyers with early inheritances. Picture: iStock.

He says some parents who give early inheritances can increase their future age pension payments, because after five years the money they give won't count towards pension assets tests.

Superannuation money is tax-free for most retirees, but when mum or dad dies it's only tax-free if passed on to a dependant such as a spouse. The kids pay 15 per cent tax, but this can be avoided by withdrawing the money while still alive or adopting a recontribution strategy.

"It really depends on the situation – either way people need to seek advice around it," James says.

Financial strategist Theo Marinis says his firm regularly does "cash out and recontribution strategies", where the money is withdrawn tax-free then reinjected as a non-concessional contribution that doesn't attract the tax.

"Between 67 and 75 you can do $110,000 a year, each – it's more than most people have – and a couple can wash out $1.8 million," he says.

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The success of an early inheritance handout "depends on what they do with it in terms of investing it efficiently and effectively", Marinis says.

"If they don't want it or need it and you have it invested in your super, it may as well stay there."

Marinis says it's important for parents to have an estate plan and ensure their children receive the same amount of money, even though it's common for some siblings to be much better off financially than others.

"Estates always bring out the worst in people, and the last thing you want is for your money to create a rift when you are gone," he says.

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