

## Looking After the Grandkids

Theo Marinis says the golden rule of looking after the grandchildren is first making sure the kids are okay.



By **Theo Marinis**

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I am told that there is just something wonderful about being a grandparent: our grandchildren motivate us to look after them in all sorts of ways, particularly financially.

But before we race out and establish a family trust, set them up with a managed investment fund, buy insurance bonds (or as Greek ‘pappous’ love to do, buy them a house next door) we should first ensure that their parents are financially established.

To paraphrase a standard flight safety briefing: “in the unlikely event of an emergency, please ensure your adult children are safely strapped into their financial protection plans, before assisting your grandchildren.”

To achieve this end, you may first need to embark on a financial education programme for your adult children. This might mean buying them a subscription to a wealth creation publication or two and introducing them to a money-mentor (an independent financial planner, for example) to help get their finances organised.

Importantly, encourage them to get the right insurance protection in place, even if that means paying for it yourself. In the event that your adult child is afflicted by a life changing illness, a tragic accident, or an addiction, you could well be left spending your grandchild’s inheritance raising them. Hopefully, increasing your adult children’s financial literacy will also rub off on the ‘littlies.’

Only when their parents are financially sorted, should we consider setting up our grandchildren.

And if you are considering setting up investments in their name, you need to know that under 18s as ‘minors’ are taxed at 66c on every dollar of unearned income they

receive over \$416, up to \$1,307. When this level is reached, the tax rate falls to just the top personal tax rate of 45 per cent - plus the 2 per cent Medicare Levy!

The most effective way to transfer wealth to your grandchildren is via the tax advantaged superannuation environment. In Australia, a superannuation account can be established on behalf of a child at any age (subject to the rules/limits of each fund). At present you can contribute up to \$110,000 pa as Non-concessional Contributions (NCC) – or up to a total of \$330,000 in one hit via the NCC ‘Bring Forward’ rules.

If your grandchildren are working, and their income from employment is causing tax headaches, they are also able make tax deductible Concessional Contributions (up to \$27,500 pa) to offset against their earned income (but not their unearned income if they are under age 18).

The caps for concessional (CCs) and non-concessional contributions (NCCs) are indexed annually. CCs are taxed at just 15 per cent on the way in (no tax is applied to NCCs) and the super fund is then taxed at a concessional rate of 15 per cent on earnings. On the way out (under current rules) the accumulated super benefit then becomes become tax-free on withdrawal after the age of 60.

The problem of a super arrangement is that your grandkids won’t be able to spend that money until they are over 60. Hopefully, they will have established themselves independently by then.

If you don’t want your grandchildren to wait until age 60 to reap the rewards of your superannuation contributions, another option might be an insurance bond, which becomes tax free after 10 years. The earnings are, however, taxed at 30 per cent until the funds are accessed.

Establishing a family trust is a common approach, given that trusts technically only pay tax on the earnings which are not distributed. This undistributed income is, however, taxed at the top personal tax rate of 45 per cent plus the 2 per cent Medicare Levy.

Trust income, which is distributed, is taxed at the recipient’s marginal rate. But if the recipient is a minor, we are potentially ‘back to first base’ i.e., with tax paid at 66 per cent then the top personal tax rate of 45 per cent plus 2 per cent Medicare Levy.

The other disadvantage of a trust arrangement is that it can be an expensive hassle

unless you are particularly financially minded and enjoy spending time with accountants – not to mention that the government is currently tightening the rules and flexibility around family trusts.

So, let's untangle the dilemma.

My approach to creating wealth for our grandchildren would be to first sort out their parents, as outlined above.

Then, the next steps:

- Ensure that you have a professionally drafted Will lodged with your lawyer to a) avoid as many disputes as possible and b) to make your intentions clear to a probate judge.
- Consider your own wealth creation approach, starting with your home: should it be upgraded, or can you afford something more valuable? Your home is capital gains tax free and traditionally a great store of family wealth; this can be used to maximise the return to your estate.
- Speak to your financial adviser about a [cash-out-and-recontribution strategy](#) for your superannuation/pension fund so that your estate won't need to pay 15 per cent on the taxable component – or 30 per cent on the untaxed element (plus the Medicare levy of around 2 per cent) on your super.
- After 1 July 2022, if you are in the age bracket 67-75 and retired, you will no longer need to meet the 'work test' to implement a re-contribution" strategy. If you have not done so already, I strongly recommend you investigate it as soon as possible, to make your super/pension as tax friendly as your Capital Gains Tax exempt home.
- When your super is in the tax-exempt pension phase ensure (both) grandparents have fully accessed the \$1.7 million Transfer Balance Cap. This consideration is also designed to ensure the maximisation of the tax-effectiveness of your estate.
- After all the above is in order and there are still sufficient funds in play, consider (with your adult offspring's approval) paying for your grandchildren's education; most schools will allow this arrangement. You could then establish a series of insurance bonds, with staggered payment dates to avoid delivering too much

money in one lump sum to your grandchildren.

- Ensure there is a testamentary trust option in your Will (particularly for those under 18-year-old minors, as they will be taxed as adults on the unearned income from a testamentary trust as opposed to tax at 66 per cent on investments in their own name). A testamentary trust will also protect your estate proceeds and can be established to ‘suggest’ the appropriate use of these funds – for example healthcare, university education, travel, or a home purchase.
- Then, establish a superfund for them.

You may decide that it might be better to surprise your grandchildren rather than risk them growing up with an expectation of having wealth bestowed. Or you can creatively encourage them to develop the financial literacy which will help them to understand the value in being able to grow their savings.

Take regular advantage of those enjoyable times where you can chat with your grandchildren on age-appropriate financial matters. Discuss your own life lessons about generating wealth and give them an understanding of the need to hire experts, such as accountants, lawyers, and financial planners. Imbue on them the responsibility which comes with generating wealth, and the quiet benefits of philanthropy for society.

As a future ‘papou’ (hopefully!), I look forward to one day inviting my grandchildren into this learning space, by involving them in meetings with advisers, encouraging them to read widely on financial matters, and to bring their questions to me.

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