Gifting can be taxing!

NIYATI KHANNA

CFP® Professional, CA, MBA [Finance & Strategy] representative of Alman Partners Pty Ltd, Australian Financial Services Licence No: 222107

AlmanPartners True wealth

It is all too common for parents to lend a helping hand to their children, especially when they consider purchasing their first home. The two most common ways that parents help is done by

- Helping with the deposit or
- Going guarantors on the loan

However, this assistance can have unwarranted consequences for you and so it is best that you take this into consideration before making a decision.

Centrelink

While most people do not think about this, if you are on Centrelink Benefits (Age pension and the likes), there are restrictions as to how much one can gift and if you exceed this limit the excess will continue to be assessed for your Centrelink benefits.

The excess amount goes on to become "Deprived assets" and will be included in your Centrelink assessment for the next 5 years. So be sure to confirm you do not exceed the gifting limits as applicable.

Estate Equalisation

If you were to pass after helping one child but before you could help the other(s), you may have an issue of unequal distribution of your wealth to the intended beneficiaries. This can result in disputes or general sense of inequity amongst the beneficiaries.

It is best that you document any assistance and further consider if making a provision for adjustment to the estate distribution is warranted.

Asset protection

If your assistance is in the form of a gift to your adult children who are married or have a partner. In the event of a relationship breakdown this gift is considered a part of the pooled assets available for distribution. One way to address this could be to lend the money instead and draft a loan agreement to this effect.

Consult a solicitor for further advice of the options that may be available to you.

Liability and further Loans

As a guarantor you are the last recourse in the event the original borrower is unable to service the debt. This could mean a significant liability and you may wish to ensure that the borrowers have adequate insurances in place to take care of this outstanding loan in the event of illness , injury or death. Please note the insurances do not cover for loss of job.

Furthermore, if you are looking to borrow for yourself, your ability to borrow is impacted by the quantum of loan you have guaranteed.

As you can see, there can be far reaching consequences of a simple and well-meaning decision and it is always best to take in to account all aspects and make an informed decision.