House Rules for your retirement

Be wary of taxes on parental generosity, writes Moneysaver HQ editor Anthony Keane

REAL estate is the largest asset most Australians own, and handing it to adult children can be a financial minefield.

Some ageing parents choose to sell or give property to their kids, others use it to help fund aged care, while many don't want to think about it before they die.

Retirement specialists say the best strategy is often to hold on to the family home because doing anything else can result in unpleasant tax, stamp duty and age pension issues.

A person's principal residence is exempt from Centrelink means tests, capital gains tax and other potential nasties.

Marinis Financial Group managing director Theo Marinis says it is a good idea for seniors to have a property strategy early.

"Just because you plan for it doesn't mean it's going to happen," he says.

Aged care rules around real estate are complex, and your home is not counted in any asset assessments if a spouse or dependent child is still living in it.

On death, a home gets transferred tax-free to beneficiaries. "If the principal residence is sold by the survivors within two years of the person passing, there's no tax issues," Mr Marinis says.

Parents considering transferring a property to adult children – either for money or for free – should tread warily.

"If it's not their principal residence, capital gains might create issues down the track," Mr Marinis says.

"A gift is still a transfer."

Retirees transferring a home turn it from being an exempt asset to one that's assessed by Centrelink for the next five years.

People's Choice Credit Union senior financial planner Sally Kolbig says transferring holiday homes is more common and has a big impact.

"Most of the time it's because they know the kids can't afford to buy it from them, but parents don't want to lose it to the family," Ms Kolbig says.

"If it's a shack or holiday home there's CGT, so they need to keep that in mind."

Stamp duty applies to most property transfers other than from husband to wife or as part of a will.

"A lot of people want to give it to the kids – if they do the kids may be up for $30,000 or $40,000 of stamp duty unknowingly," Ms Kolbig says.

Some parents transfer property to reduce their own assessable assets so they qualify for a part age pension, but this must be done five years before they reach pension age.

"Don't give it away to the kids if you are never going to get the pension anyway," Ms Kolbig advises.

She says legislation keeps changing, so retirees should always seek advice, and should also be wary about giving away too much.

“I see way too many Baby Boomers giving away way too many assets way too early,” Ms Kolbig says.

Mr Marinis says most parents want to leave assets for their children.

“Quite often the kids say, ‘We don’t want you to leave it for us; we want you to use it for your own lifestyle’,” he says.

“Be frugal but don’t be crazy-frugal. If your kids love you they don’t want you to deprive yourself to leave them an asset.”

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