Thought of the Month

Helping the kids buy a home and protecting parents' interests

A recent survey of Australians aged 50 and over has revealed that parents give $22 billion a year to their adult children to help them get established, buy property and tide them over tough times.

Gift, loan or other?

One way to help adult children buy a home is providing them with money to help with a deposit. The gift may be given directly or contributed to a First Home Saver Account, a tax-effective way to save for a home. Any asset or amount over or above $10,000 gifted by a single person or couple in a single financial year or above $30,000 over a five-year rolling period impacts on parents' pension entitlements for five years. A better way to provide support and to protect parents'interests is through a written loan agreement. This would ensure that the parents' rights are protected in the event a child's relationship with his or her spouse or partner broke down. Another option is for parents to provide guarantor support for their children by providing either the parents' home or term deposits as security. Finally, parents could consider buying the property jointly with their children, but this would mean the parents would have their names on the title deeds. For both guarantor support and joint ownership of property, parents need to be aware that they are fully liable for their child's loan obligations. The possible effect on parents' pension entitlements should also be a consideration in both arrangements. As further protection, parents who gift or lend money can insist that their child and spouse or partner enter into a binding financial agreement to ensure that the gift or loan is repaid if the relationship fails.

Parents should always obtain specialist legal and taxation advice when setting up a loan for their children.

Here are some options to consider:

- Should the loan be on interest free or commercial terms?
- If interest is charged, will it be fixed or variable or pegged to a bank interest rate?
- Should the loan be open ended or does it need to be repaid within a certain time frame?
- Should parents request security over the debt, even through the agreement is classed as a personal debt?

The importance of life insurance

If illness, injury, or even death were to happen to an adult child who had just purchased a home, it would be quite likely that the child would have trouble meeting mortgage repayments and could possibly even lose the home. With lump sum covers, the easiest way to do this is to set up a non-super life policy owned by the parents on the life of the child. The level of cover should at least be the amount of the loan or gift, so that the parents would not have a shortfall if an insurable event occurs. Income protection for the child should also be considered. This must be owned by the child to ensure that a tax deduction can be claimed. Once the loan is repaid, the parents have the option of transferring the insurance cover to their adult children, so they could assume premium payments. Contact your financial adviser today to find out the best option for you.

If you have any queries relating to the above, please contact People's Choice on (08) 9489 2700 or by email on **corpsuper@peopleschoicecu.com.au**.

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