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## 'Tis the Season for Giving

Holiday generosity feels good but gifting rules matter

Lifetime gifting explained



It's that time of the year when you'll be rushing to do last-minute shopping and wrapping gifts to place under the Christmas tree. For some - spending and gifting wisely can take on a different meaning. More Australians are choosing to support family and causes during their lifetime while they're still here not just through their estate.

This shift to 'lifetime gifting' reflects a practical desire to provide support when it's needed, not just through a will later. Christmas, with its focus on generosity and planning, is a natural time to consider how and when to give.

### What is lifetime gifting?

Lifetime gifting (also referred to as lifetime financial support) is the process of transferring assets, such as money or property, to another person during the giver's lifetime rather than through a will. This strategy is often used for estate planning, and while many personal gifts are tax-free, certain assets may incur capital gains tax, and large gifts can affect government benefits.

It's important to consult with a financial adviser. While generosity is at the heart of the holidays, advisers play a key role in ensuring clients

understand the rules (including Centrelink limits) around lifetime gifting. Clear guidance helps families celebrate the season without the unintended impacts on the Age Pension entitlements or tax obligations.<sup>1</sup>

### Why it's gaining momentum

According to the Families in Australia Survey (2021) by the Australian Institute of Family Studies:

- **21%** of respondents said they received financial help from family members they don't live with - either occasionally or regularly.
- **49%** endorsed the idea of providing financial support between family members in times of financial need.

Support typically flows from older to younger generations, especially during housing transitions, education and care needs, or during financial difficulty.<sup>2</sup>

### How Australians are lifetime gifting

Australians are turning to lifetime gifting to combine generosity with timely financial support:

- **Helping with home ownership:** Parents often help their children into the property market by contributing to a deposit or offering mortgage support.
- **Contributing to education costs:** Families may pay off HECS debts, fund further study, or contribute to grandchildren's school costs.

- **Providing some business support:** Providing funds to help a family member start or grow a small business.
- **Charitable giving:** Donating to charities or community organisations that reflect personal values, sometimes with tax benefits.<sup>3</sup>

## Key points about gifting in Australia

When lifetime gifting - here are the main rules that apply:

- **No gift tax:** Australia does not impose a formal gift tax. You can give money or assets without triggering a direct tax liability, provided the gift is genuine and not exchanged for services or material benefit.
- **Centrelink rules:** If you receive the Age Pension or other benefits, gifting more than \$10,000 in a financial year or \$30,000 over five years may affect your payments. These thresholds are part of Centrelink's deprivation rules.<sup>4</sup>
- **No inheritance tax but other taxes may apply:** Australia abolished inheritance tax in 1979, but other taxes may still apply:
  - Capital gains tax (**CGT**) may apply when inherited assets are sold.
  - Superannuation death benefits may be taxed depending on the beneficiary's relationship to the deceased.
  - Income from inherited investments is generally taxable.<sup>5</sup>

## Talk to your financial adviser

A financial adviser can provide guidance on areas such as:

- **Your financial situation:** a holistic overview of your finances and your specific goals for wealth transfer.
- **Estate planning:** helping you to structure your estate plan to align with your will and discuss how to protect your assets.
- **Life insurance strategies:** For you and your family including for your adult children and grandchildren.
- **Tax implications:** tax efficiencies and potential implications such as capital gains tax, and how to structure the transfer to minimise taxes for your heirs/beneficiaries.
- **Preparing the next generation:** how to best prepare your heirs/beneficiaries to manage wealth responsibly. This can include financial literacy and involving them in family financial decisions.
- **Legal frameworks:** the legal aspects, - as they often work with legal professionals - to ensure the proper legal frameworks are in place.
- **Sensitive conversations:** Your adviser can help facilitate difficult family conversations about wealth, values and expectations.

### Tips for lifetime gifting

Before lifetime gifting, it may be helpful to consider the following:

- **Protect your own position:** whether gifting compromises your financial security or creates dependency.
- **Put it in writing:** Document the gift's purpose and any expectations may help to avoid confusion later.
- **Start early:** Smaller gifts over time can be more manageable and may help simplify future estate complexity.

1 Service Australia. Gifting and Your Centrelink Payments. 2023.

2 Australian Institute of Family Studies, Families in Australia Survey: Life during Covid-19. 2021.

3 Australian Charities and Not-for-Profit Commission Charitable Giving in Australia. 2022.

4 Service Australia. Deprivation Rules and Gifting Limits. 2023.

5 Australian Taxation Office. Inheritance and Capital Gains Tax in Australia. 2022.

