



# Middleton Partners

CERTIFIED PRACTISING ACCOUNTANTS

“Continuing the tradition of Personal Professional Service”

e-Bulletin OCTOBER 2005

Welcome to our *Middleton Partners e-Bulletin* covering items that may be of interest. Please read and contact our office if further information or clarification is required.

## **Childrens Bank Accounts**

Interest on children's bank accounts or from investments in a child's name is usually taxed at children's rates. Most “unearned income” (which can also include dividends) of minors is effectively taxed at the highest marginal rate of tax. Such income is termed “eligible income” and as the following tax rates indicate can be taxed severely.

- Up to \$416 (effectively \$772 in 2004/05 and 2005/06: tax liability is reduced by \$235 of low income tax offset) ..... Nil
- \$417 to \$1,445 ..... 66%
- \$1,446 and over ..... 47%

If a child is aged less than 16 (or turns 16 in a calendar year) and the investment income is greater than \$420 per year, the child must quote his or her TFN and date of birth, to prevent TFN withholding tax. If a child is aged over 16 and the investment income is greater than \$1 per year, the child must quote his or her TFN to prevent TFN withholding tax.

### **Extract from Income Tax Ruling IT 2486**

Children's savings accounts may be held with a bank, credit union, building society or other financial institution. They may be opened and operated by parents or grandparents and called 'trust accounts' or they may be opened or operated by the children.

Regardless of the name and the type of the account, the essential question that must be asked is: “Whose money is it?” The answer depends on the facts of each case. If, for example, the money in the account was received by the child as pocket money, birthday or Christmas presents, newspaper rounds, etc. it should be regarded as the child's money. If the money belongs to the child, and the child's total income from all sources is under \$643, no tax is payable and a tax return is not required. If the money really belongs to the parent (ie. the parent provided the money, and the parent may spend it as he or she likes, rather than as the child likes) the parent should pay tax on the interest.

## **Childrens Share Investments**

In order to decide who declares the dividends received or the net capital gain/loss from the sale of shares, you need to determine who rightfully owns and controls the shares, ie. “whose shares are they?”

If the funds to acquire the shares were provided by a person other than a child and that person makes all decisions in relation to those shares and dividends, then that person is deemed to be the owner of the shares, that person also declares any dividend income and capital gain or loss.

If the funds to acquire shares were from money gifted to or earned by the child, and the investment decisions are made by a third party on behalf of the child, the child is considered to own the shares. The child then needs to disclose the dividend income and all capital gains and losses arising from the sale of those shares.

WARNING: The ATO may audit the arrangement if it considers that excessive funds and/or regular turnover are involved.

**Example 1:** Julie purchased 1,000 shares of a publicly listed company on behalf of her son, Alexander, with money saved from his part time job and money received for his birthday. Dividends of \$200 are deposited in his bank account. The dividends are assessable to Alexander. Capital gains and losses from the sale will belong to him.

**Example 2:** Rachel uses her money to purchase \$5,000 worth of shares in the name of her son, John. Dividends of \$250 received are deposited into her own bank account for her personal use. The \$250 is assessable to Rachel. When the shares are sold, Rachel must declare any capital gain or loss from the sale.

WARNING: Principles of trust law may apply to certain investments made on behalf of a child. If a trust is established it may be the task of the trustee to pay tax on behalf of the child and at rates which would have applied had the child directly derived the income.

## **Superannuation Co-Contributions**

The Government has advised that it has now paid out some \$309 million to the superannuation accounts of eligible income earners. Some 63% of total co-contribution recipients are female.

**Note that for the year ended 30 June 2006, the eligible personal superannuation contributions will be matched at \$1.50 for each dollar contributed. The maximum co-contribution will be \$1,500 on total income (assessable income plus reportable fringe benefits) up to \$28,000. The maximum co-contribution will then phase out at a threshold of \$58,000.**

**IMPORTANT:** You are welcome to forward this e-Bulletin to friends or associates but **most importantly** please note that this e-Bulletin is not advice. This e-Bulletin is issued as a guide to clients and should only be acted upon after seeking formal professional advice.