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Payments of pensions to children

Parents making their wills and considering their estate planning arrangements face a difficulty when they have a combination of young children and a significant proportion of their wealth in their superannuation fund.

Very few people agree that 18 is a good age for the children to inherit substantial wealth even if this allows a tax-free payout of a lump sum from their superfund when they die. Preserving the inheritance from their superannuation fund in a testamentary trust under their will until the children are older is likely to have an adverse tax result.

The new superannuation rules allow for the payment of pensions to children under age 25 which commute at age 25 tax free. The pension stream is assessable income but attracts the 15% rebate on the taxable component.

This often provides an attractive alternative. However, it can only be used if at the date of death either the relevant child is under age 18 or is between 18 and 25 and financially dependent.

Author: Jim Main, JMA Legal August 2009

For further information on this issue, please see the contacts below.

Contacts

Jim Main
Brendan Cockerill
Linda Alexander
Amanda Friend
John English

Call 1800 618 869
www.jmalegal.com.au

Canberra
L11/60 Marcus Clarke St,
Canberra ACT 2601
Ph 02 6243 3610
Fax 02 6243 4848

Cootamundra
46 Cooper St,
Cootamundra NSW 2590
Ph 02 6942 1655
Fax 02 6942 3692

Sydney
3 Spring St,
Sydney NSW 2000
Ph 02 8249 4028
Fax 02 8249 4872