

Children and money – not always child’s play

Investing for children can be complicated. It is not easy trying to make the right decisions to ensure your children’s education and other needs can be paid for. As part of a long term commitment, it is important to ensure you are making informed decisions about the taxation implications, investment options and risks when investing on behalf of your children.

Investing for children is not always child’s play, but it can be made easier if you consider the following seven important factors and seek advice from a licensed financial adviser.

Investing for children: seven important things to consider

1. Why is it important to understand the goal?

Starting with the end in mind is important. Many people make investments on behalf of their children without defining exactly what they are attempting to achieve. When setting goals, they need to be clear and easy to understand so that they can be achieved. In simple terms, if you are saving for your children’s tertiary education, it is important to have an idea of how much a university degree may cost. From there, you can determine how much you need to save on a regular basis, what investments are appropriate and your investment time horizon.

2. What is the taxation treatment?

When it comes to investing for children under 18, the tax applied to investment earnings over \$416 does not leave much opportunity to accumulate assets in a child’s name before paying tax.

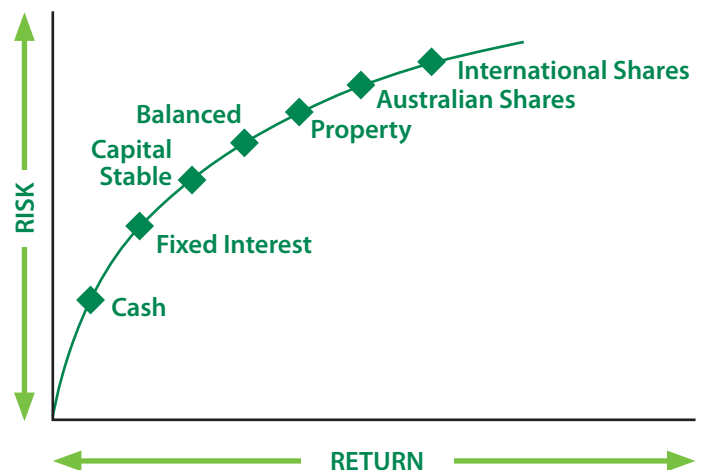
In fact, prior to 1 July 2011, a child was able to receive investment income up to \$3,335 before paying tax when taking into account the low income tax offset¹. However, due to an announcement in the 2011 Federal Budget, the removal of the low income tax offset means a child can only earn \$416 tax free from 1 July 2011. In fact, the income from investments from \$417 to \$1,307 is taxed at 66%, whilst investment income above \$1,307 is taxed at 45%.

Consideration can be given to investing into assets such as Australian shares that pay tax-effective dividends (including imputation credits) or insurance bonds which are taxed at 30 per cent on investment earnings.

3. Why is an investment strategy important?

An integral part of you achieving your goal will be investing into effective asset classes such as fixed interest, property and Australian and international shares. Having an investment strategy which combines the different asset classes and takes into consideration your tolerance to risk is essential.

A cash or fixed interest investment strategy could mean your goal may not be achieved due to lower risk and investment returns in comparison to Australian shares. An Australian shares investment strategy on the other hand could mean greater risk but potentially higher returns. It is important to bear in mind that the share market could produce a negative return.



¹ Based on 2011/12 financial year tax scales and takes into account the low income tax offset of \$1,500 which applies to taxable income under \$30,000 and reduces up to \$67,500.

4. What factors impact an investment strategy?

An integral part of your investment strategy is taking into consideration your appetite to risk and investment time horizon. The longer your investment horizon, the longer you have to achieve your intended goal which can reduce the level of risk involved.

5. Why is it important to understand investment risk?

It is essential to understand potential investment risks and be comfortable with the impact of decisions you make (ie how much risk you are taking on as a result of your investment decisions and time horizon). A simple way to gauge your risk appetite is to weigh up whether you could sleep at night knowing your investments are either gaining or losing money.

6. What are the types of investments available?

The following table summarises the available options when investing on behalf of children.

Type	Explanation
Bank deposits	Funds entrusted to a financial institution in return for interest.
Managed funds	A type of investment where a number of investors pool their money into one fund which is then invested by an experienced fund manager.
Australian shares	Partial ownership of companies listed on the Australian Stock Exchange.
Insurance bonds	Combines the benefits of a managed fund with the security and tax benefits of a life insurance policy.

7. The power of regular investing

Making your money work harder for you is good practice and the easiest way to do it is to harness the power of regular investing. Investing regularly over a long period of time allows you to take advantage of compounding investment returns.

How can a financial adviser help?

A licensed financial adviser can help you navigate through the above seven important things to consider when investing on behalf of your children. A financial adviser can also assist you with your wealth accumulation strategy by:

- dealing with reduced income
- maximising government benefits (ie Family Tax Benefits)
- obtaining appropriate insurance
- establishing estate plans
- kick-starting your retirement planning.

Seeking advice from a financial adviser will ensure you work towards achieving your goals whilst having your own financial coach. Choosing a financial adviser is a very personal choice and you must feel comfortable with the adviser you choose. Speak to friends and family about their experiences. Alternately, you can visit the Financial Planning Association Good Advice website – www.goodadvice.com.au for more information.

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