The great wealth transfer: Are you ready?

Over the next few decades, Australia is expected to witness one of the biggest intergenerational wealth transfers in history with between $3.5 trillion and $5 trillion changing hands as baby boomers pass on their wealth to children and grandchildren.

If you're expecting to inherit from your parents or grandparents, or you're thinking about the legacy you'll leave to your loved ones, it's important to understand the tax traps and planning strategies that come with this enormous transfer of wealth. While there's no inheritance tax in Australia, there are other hidden tax pitfalls that can reduce the value of what's passed down.

The tax traps you should know

Capital gains tax (CGT)

Receiving cash doesn't attract tax but inheriting property, shares or other investments can trigger capital gains tax (CGT), depending on how and when those assets are sold. For example, if you inherit a home and it's sold within two years of the deceased's passing, the sale may be exempt from CGT – provided the home was the person's main residence.

If you keep the property for longer or it was being used to produce income, CGT could apply down the track when you sell.

Superannuation

Super is another area full of complexity. When someone inherits super, whether or not they pay tax on it depends on a few things – like **who** they are and **how** the money is paid.

If the person receiving the super is a "tax dependent" – for example, a spouse or a child under 18 – they usually won't have to pay any tax if the super is paid as a lump sum. However, if the person inheriting the super death benefit isn't a tax dependent (such as an adult child), your super fund will withhold tax before paying the money out. This can range from 17% to 32% (including Medicare levy), depending on the type of contributions that were made to your account (eg, concessional or non-concessional contributions).

Getting advice about how super is structured and who your beneficiaries are can make a big difference in how much tax is paid.

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The great wealth transfer... cont

Gifting assets before death

Some people choose to give assets like property or shares to their children while they're still alive – either to help them out financially or to reduce the size of their estate. While this can be a thoughtful move, it can also lead to an unexpected tax bill.

That's because giving away certain assets (like an investment property or shares) is treated like selling them, which means CGT may apply. The tax is worked out based on the difference between what the asset is worth now and what you originally paid for it.

However, if the person giving the gift has made a loss on other investments in the past, they may be able to use those losses to cancel out some or all of the gain, reducing or even eliminating the tax they have to pay.

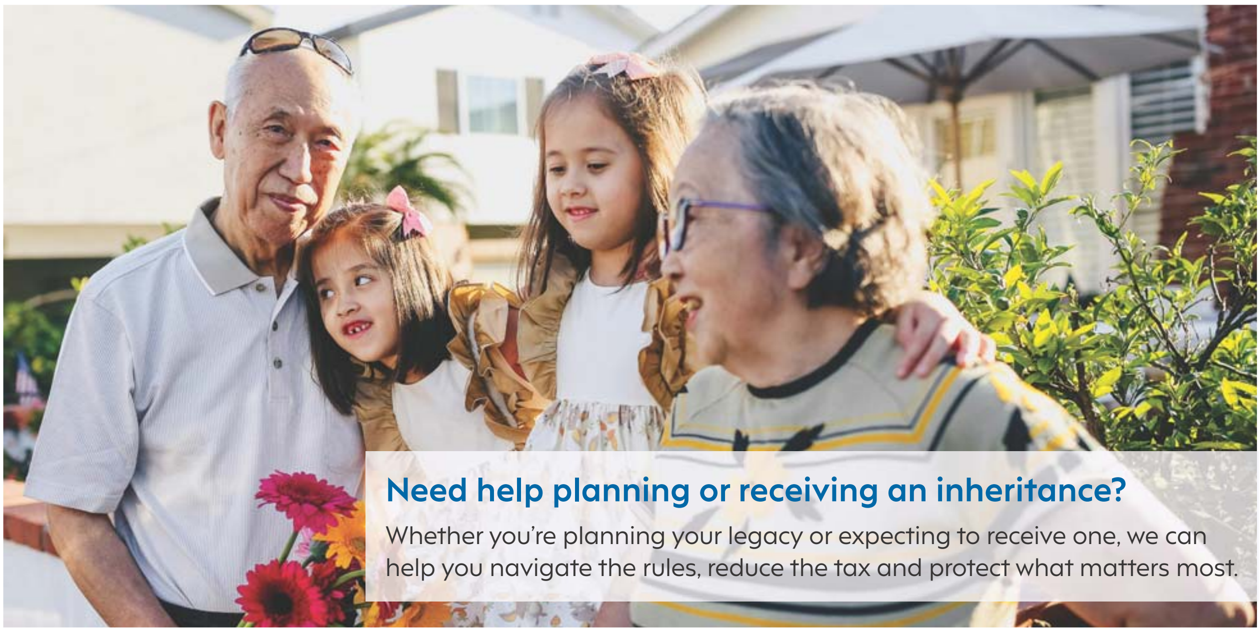
This is why it's important to get advice before making any big gifts – so you know exactly what the tax consequences might be.

Trusts and family structures

Using a family trust or testamentary trust (a trust set up under a will) can offer flexibility and tax savings. These structures allow more control over who receives income and when – which can help manage tax across the family group and avoid disputes. But they need to be set up correctly and in line with your wishes.

Tips to protect your family's wealth

1. **Get your will and estate plan in order** – having a legally binding will is the foundation of a good wealth transfer plan. It's also wise to appoint a power of attorney and an executor who understands your wishes and has the emotional and practical ability to carry them out.
2. **Talk openly with your family** – the emotional side of inheritance is just as important as the financial side. Discuss your intentions early to avoid surprises and prevent family conflict down the line.
3. **Understand the tax implications** – don't assume everything passes tax-free. Ask questions about CGT, super and gifting – especially if you're likely to inherit property, shares or other non-cash assets.
4. **Review your super nominations** – make sure your beneficiaries are up to date and that you've completed the right type of nomination form (binding vs non-binding). This helps ensure your super goes where you want it to, without unnecessary tax or delay.
5. **Seek professional help** – the rules are complex, and mistakes can be costly. Getting the right advice from a professional who understands estate planning and tax can help you make smarter decisions and keep more money within your family unit.



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