GOLDEN YEARS Tips to make the most of your retirement

Bonds one way to help the grandkids

Tips to give financial aid to family youngsters

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Grandparents are often keen to pitch in financially towards raising their grandchildren.

The aim could be to pay for school fees, or there may be a longer-term goal in mind such as a paying for a first car, funding a gap year, wedding or even a deposit on the grandchild's first home.

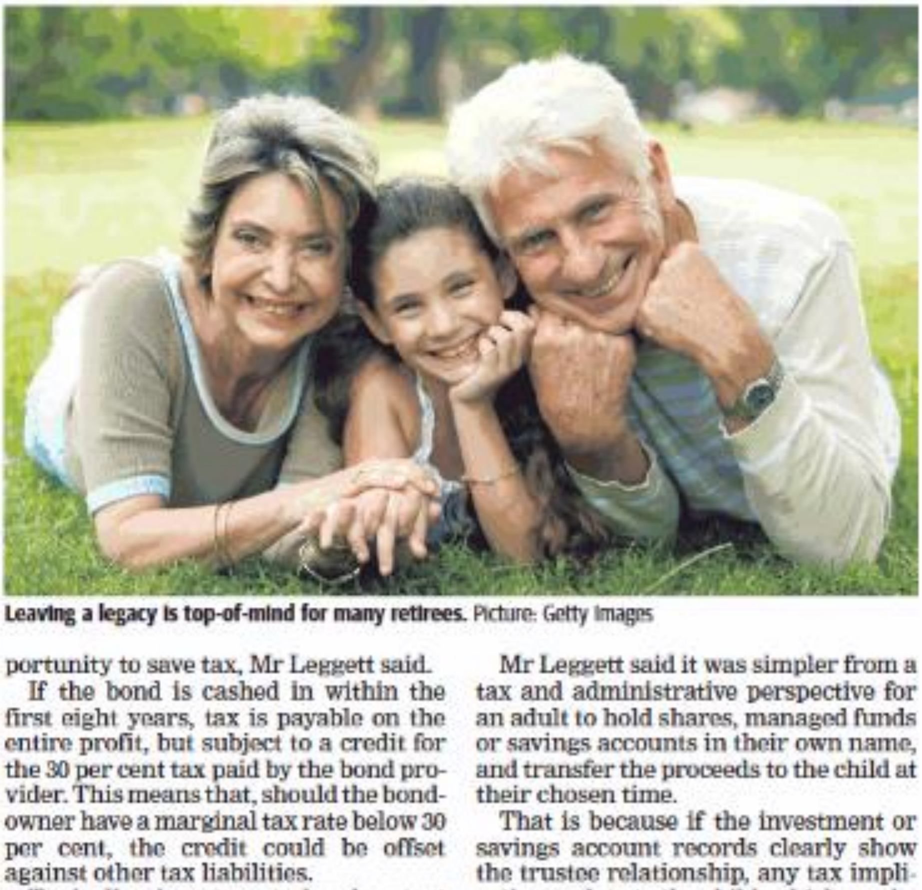
Paramount Wealth Management principal Wayne Leggett said a popular savings vehicle for grandchildren was an investment or insurance bond. Policies can be held in the name of the child, parent or grandparent. If the child is nominated as the life insured and the adult as the policy owner, ownership of the bond can be transferred automatically to the child at a nominated age.

Investment bonds can be tax effective for long-term investors (in this case grandparents) with a marginal tax rate higher than 30 per cent.

According to Mr Leggett, by giving some thought to who owns the bond and when it is redeemed, tax benefits, in addition to the profit of the bond, can also be achieved.

Money can be withdrawn from the investment bond at any time, however if you withdraw before the 10-year timeframe, some income may be taxable, depending on when the withdrawal is made.

If no withdrawals are made in the first 10 years, the proceeds of the bond are received with no additional tax payable. However, an anomaly in the taxation of these products created a potential opportunity to save tax, Mr Leggett said.



Leaving a legacy is top-of-mind for many retirees. Picture: Getty Images

If the bond is cashed in within the first eight years, tax is payable on the entire profit, but subject to a credit for the 30 per cent tax paid by the bond provider. This means that, should the bond-owner have a marginal tax rate below 30 per cent, the credit could be offset against other tax liabilities.

Typically investment bonds start with a lump sum contribution, and you can continue contributing (up to 125 per cent of the previous year's contributions) throughout the life of the fund.

Most investment bonds offer investment options such as cash, fixed interest, shares or property.

Mr Leggett said saving for grandchildren usually involved a long-term horizon, so it made sense to opt for the more aggressive or higher risk investment options.

Another option for saving for grandchildren is through direct shares or managed funds. Most of these cannot be held in a child's name so an adult must hold them in their own name or act as trustee for the child. The same applies for savings accounts through a bank.

Mr Leggett said it was simpler from a tax and administrative perspective for an adult to hold shares, managed funds or savings accounts in their own name, and transfer the proceeds to the child at their chosen time.

That is because if the investment or savings account records clearly show the trustee relationship, any tax implications relate to the child, which can be highly complicated.

If the investment is held in the name of the adult, the tax implications are theirs. Mr Leggett said his preferred way to save for grandchildren was to use an offset mortgage to your advantage.

"The interest saving benefit will always be higher than a savings account, particularly after tax is considered," he said.

"Some banks may allow a second designated offset account, which could be earmarked for the grandchild, but if not keep the money in the main account and keep track of what it is worth."

Remember, if on the age pension, gifting rules will apply if funds are passed directly to the grandchildren (or to parents for the grandchildren).