



Tax and investing for children

A guide for Australian parents

Investing on behalf of a child can be a powerful way to build long-term wealth for your child's future.



However, doing so effectively – and with proper regard to Australian tax law – requires a clear understanding of ownership structures, reporting obligations and ATO expectations.



In Australia, many investments for children are held in the name of a parent or guardian, but for the child's benefit.

These arrangements are often referred to as informal trusts. While simple to set up, they come with specific tax implications that are often misunderstood, especially when it comes to ownership, income and capital gains tax.

This guide explains how informal trusts work, what the ATO looks for and how to manage tax and compliance with confidence as your child's investments grow.

Please note this information is general in nature only and should not be relied on as tax advice. Investors should consider obtaining professional tax advice before making an investment decision.

A quick note on capital gains tax (CGT)

Before diving into how tax works for children's investments, it's important to understand how CGT applies to investors in Australia. CGT is the tax you pay when you sell an investment, like shares or ETFs, for more than you paid (e.g. the cost at which you acquired the investment). The difference between the purchase price (called the 'cost base') and the sale price is the capital gain. Your cost base is typically your purchase price adjusted by things such as any returns of capital since you have held the shares or ETFs.



If you hold the investment for less than 12 months, the full capital gain is added to your taxable income. But if you've held the investment for more than 12 months, you may be eligible for a 50% CGT discount. This means you only pay tax on half the gain.



For example, say you bought \$5,000 worth of units in an ETF and sold it five years later for \$9,000. That's a capital gain of \$4,000. Because you held the investment for more than 12 months, you only need to pay tax on \$2,000 of that gain. If your marginal tax rate is 32%, your CGT bill on the sale of the investment would be \$640 - or 32% of \$2,000.



Understanding how CGT works can help you make better long-term decisions, including how and when to transfer investments to your child.

What is an informal trust?

An informal trust is a simple way for parents to invest on behalf of their child without setting up a formal legal structure.

The investments are held in the parent's name, but the child is the 'beneficial' owner, meaning they're entitled to the earnings and value.

It's a common approach for families wanting to build wealth for a child without the complexity of having to establish and administer a formal trust.



CGT benefits: A key advantage

One of the biggest potential benefits of a trust arrangement is how CGT is handled when you want to transfer the funds to the child at any point after they turn 18.

As long as your child has always been the beneficial owner, you can generally transfer the investments into their name (through an 'in-specie' transfer) without triggering a CGT event. In other words, no tax is payable at the time of transfer, either by you or by your child.

Instead, your child takes on the original cost base and acquisition date for the investment - the amount you paid when you bought the investment. This means no CGT is triggered at the time of transfer from the trust to the child's individual account (after they turn 18 years of age). If your child sells the investment in the future for more than the purchase price, CGT will be payable on the gain.

Legal vs beneficial ownership: What the ATO looks at

With an informal trust, the investment account is held in the parent's name.

But if the investments are held for the child's benefit, the child is the beneficial owner, i.e. the one who earns the income and 'owns' any capital growth.

For tax purposes, the ATO cares most about beneficial ownership. That's what determines who should pay tax on income and whether the investment can be transferred tax-free after the child turns 18.

One of the most important requirements for this to occur is to be able to show that your child has been the

beneficial owner since the acquisition of the relevant investment(s). The ATO considers several factors when assessing this, including where the funds to acquire the investment came from, who made investment decisions, and where any income earned from the investment was paid to (and by or for whom it was spent).

They also look at the intent and documentation around any gift or trust arrangement. For substantial amounts or more active trading, the ATO could apply additional scrutiny.

Why the source of funds matters

The source of the money used to invest plays a big role in deciding who the ATO sees as the beneficial owner of the relevant investment:

01

Child's own money:

If the money comes from the child – like birthday gifts, pocket money or a part-time job – the child is the beneficial owner.

02

Money gifted by a parent:

If the parent gives money to the child, and that money is then used to invest, the child is the beneficial owner. To avoid any uncertainty, the nature and recipient of the gift should be clearly documented.

03

Money still owned by the parent:

If the parent invests their own money without formally gifting it to the child, the parent may still be regarded as the beneficial owner. This applies even if the intention is to use the money for the child later.

Tax File Numbers: How to get it right

When setting up an investment account for your child, you'll need to quote your Tax File Number (TFN).

This tells the ATO who the legal owner of the investment is and helps avoid unnecessary withholding tax. However, depending on who beneficially owns the investments, there are different rules on who will be taxed on the income.

It's more straightforward than it sounds. Here's how to choose the correct TFN based on who beneficially owns the investment.



Declare the income under your child's TFN if the money belongs to them

If the investment is genuinely for your child's benefit, and the money came from them or was clearly gifted to them, you should consider including the income received from the investment on your child's tax return.

To lodge a tax return, you need to obtain a TFN for your child. There is no minimum age to get a TFN. Parents or guardians can apply on behalf of a child, including babies, by completing a paper form through the ATO.



Declare the income under your own TFN if the money is still yours

If the funds you're investing haven't been formally gifted to your child or you use the money for your own purposes, they're still considered yours for tax purposes. This means the income should be declared under your TFN, even if (for example) the account is set up to help teach your child about investing.

This may apply if you plan to:

- Keep the investments in your name until your child turns 18, then transfer the assets to them, or
- Sell the investments later and gift the cash instead.

What happens if no TFN is quoted?

If a TFN is not provided, the ATO requires that 47% tax be withheld from income derived from the investment.

Tip

If your goal is to invest on your child's behalf and transfer the investment to them in the future without triggering CGT, it is important to ensure you keep clear records regarding the investment.



Income tax: What applies to children

If your child earns income from investments, like dividends or capital gains, that income usually needs to be reported to the ATO.

The person who benefits from the investment (the beneficial owner) is responsible for declaring it. So, if the investment is held for your child, the income should generally be declared in their name, not yours.

Children under 18 are taxed differently to adults when it comes to investment income. The first \$416 they earn from investments each year is tax-free. After that, higher tax rates apply, up to 66% and then 45%, depending on how much they earn. These special rules are designed to prevent the shifting of income into a child's name to pay less tax.

If your child earns more than \$416 in a year from investments, they'll need to lodge a tax return. Even if they earn less than that, it can still be worth lodging to claim back any tax withheld or franking credits.

It's worth noting that these tax rates only apply to passive income like investments held on behalf of a child. If your child has a job, that income is taxed at normal rates and is subject to the standard tax-free threshold.

Income for the year	Tax rates
\$0 – \$416	Nil
\$417 – \$1,307	Nil plus 66% of the excess over \$416 (see note)
Over \$1,307	45% of the total amount of the income that is not excepted income



Managing the transfer after your child turns 18

One of the biggest benefits of using an informal trust is what happens after your child turns 18.

As mentioned earlier, if they’ve always been the beneficial owner, you can generally transfer the investments into their name without triggering CGT.

The transfer, also known as an ‘in-specie’ transfer, is completed off-market (for listed or exchange-traded investments) and no tax is payable by you or your child.

They also inherit the original cost base, which means any future capital gains (or losses) are based on what you originally paid to acquire the investment, not the value when you transfer the investment to your child.

Keeping good records helps ensure this process runs smoothly.

To establish beneficial ownership and ensure a smooth transfer, maintain thorough documentation, including:



Evidence that the child was always the beneficial owner

Records of dividend/distribution reinvestment plans

Bank account statements showing the payment of any investment income into the child’s account



Important considerations

Keeping clear records and separating finances can help ensure your child’s investments get the right tax treatment – and make it easier to provide supporting documentation for any CGT exemptions that may apply later on.



Keep clear documentation

Record where the investment money came from, whether it was your child’s own savings or a gift from you. Supporting evidence like gift notes, bank statements or income records help show your child has always been the beneficial owner.



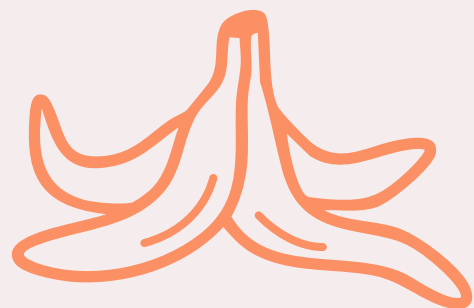
Use a separate bank account

Set up a bank account in your child’s name, with you as trustee, and direct all investment income there. Keeping your child’s income separate from any income you receive helps to provide evidence that the income genuinely belongs to your child.



Act in your child’s best interest

Make investment decisions with your child’s goals and time frame in mind. This includes reinvesting dividends or distributions where appropriate to support long-term growth.



Common pitfalls to avoid

A few small missteps can create tax issues or affect your ability to transfer investments to your child without attracting CGT later on.



One common error is **mixing funds**. For example, when you combine money you've gifted to your child with money you intend to keep. To avoid uncertainty, clearly document when a gift is made and keep it separate.



Another is **declaring income in the wrong name**. If your child is the beneficial owner, the income must be declared in their name, not yours.



Lastly, **not quoting the right TFN** can lead to 47% tax being withheld from the investment's income. This can usually be claimed back, but it adds extra complexity.

Avoiding these simple mistakes helps keep things on track and ensures the correct tax treatment in the long term.

The intent and documentation around gift or trust arrangements are also closely examined. For substantial amounts or regular trading, additional regulatory scrutiny may apply to determine beneficial ownership.



Getting it right for the long term

Investing for your child through an informal trust can be a simple and effective way to build long-term wealth, but it does require a clear understanding of tax rules and ATO expectations.

Clearly documenting beneficial ownership, using the correct TFN, reporting income properly and avoiding common pitfalls can help you stay compliant and ensure the correct tax treatment of investments in the long term.

For more complex arrangements or larger investments, it may be worth seeking advice from a qualified and registered tax adviser.



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