Professional Investment Services

Budget Booster

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Two things in life are certain: death and taxes

When someone passes away, although there are no official death duties, beneficiaries often inherit tax liabilities as well as assets. But there are ways to minimise these potential tax liabilities, reducing the effect of at least one of lifeôs certainties.

First steps

The first step in minimising any tax liabilities is to appoint a legal personal representative (LPR) for the deceased. They will need to obtain a new tax file number for the estate and then file a ódate of deathô tax return. This will be for the period from death until the end of the financial year and every financial year after that until the administration of the estate is finalised.

Tax on inherited assets

Inherited assets which were purchased before 20 September 1985 are not subject to tax. Nevertheless, if the asset is sold in the future, the beneficiary will be taxed on the increase of value between the date of death and the date it was sold. This could be a substantial sum if the beneficiary is on a high marginal tax rate.

One way around this is to have the estate sell the asset at time of death. This means the asset will incur capital gains tax, but the tax-free threshold will apply, minimising the tax debt.

If the asset was the family home of the departed, it could be exempt from capital gains tax if it becomes the primary residence of a beneficiary or if it is sold within two years of the date of death.

Tax on superannuation death benefits

Dependants of the deceased will receive the superannuation death benefit free of tax. But adult children do not automatically qualify for this tax concession.

They need to prove to the Australian Taxation Office that their relationship with the deceased involved financial dependency.

Tax on invested income

After a person passes away, their assets will continue to earn investment income. This income will need to be declared in the tax returns the legal personal representative files each financial year until the assets are disbursed.

One way to gain tax advantages is to set up a Testamentary Trust when creating the Will. This will not only provide beneficiaries greater flexibility in distributing capital and income, but may protect the asset from legal proceedings, such as marital breakdown or bankruptcy. Income generated by the trust can be allocated among the beneficiaries in a tax-effective manner.

Getting advice

Although there is some level of inevitability in death and taxes, the taxes incurred after someone passes away can be minimised. To find out more on how to minimise tax liabilities on inherited assets, talk to your adviser.

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Your local adviser office is located at: