



# Tax and the kids' savings

If a child is under the age of 18, and they earn income on their savings account, remember that the ATO considers that the person who "owns" the interest depends on who uses the funds of that account (no matter what type of account it is or the name of the account holder).



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The ATO says you need to consider who provides the money, such as the initial and ongoing deposits into the account, and who decides how the money is spent, regardless of who it is spent on. In other words, if you provide the money and spend it as you like, you must include the interest in your own tax return.

If the person who owns or uses the funds is the parent, and so acts as a trustee for the child but there's actually no formal trust arrangement in place, the ATO will expect that the parent's TFN should be used. But if a formal trust exists, you should quote the trust's TFN.

If you hold a joint account, interest earned is divided equally among all account holders, who each declare their share of the income in their tax return.

## TAX RATES

Residents under the age of 18 pay tax at different rates to adults. The tax free threshold is only \$416. Between that and \$1,307 the rate is 66%, and over \$1,307 it is

45%. These higher rates are there to discourage adults from splitting their own income and diverting some of it to a child's account.

Note however that those rates mostly apply to nonPAYG income. If the minor concerned is an "excepted" person, all income is taxed at the same rate as if they were an adult. This may apply if the minor:

- has finished full-time study and is working full time
- has disabilities
- is entitled to a double orphan pension.

## AGE AND TFNS

A child can apply for a tax file number (TFN) – there is no minimum age. Children are not exempt from quoting a TFN. When deciding whether to quote a TFN, you need to consider your child's age and the amount of interest they receive.

If your child is less than 16 years old, special rules apply to their income from a savings account. (And just so you know, the ATO treats a child as being under 16 years old until the end of the calendar year in which they turn 16.)

If your child is:

- any age and they earn less than \$120 per year from savings accounts, their financial institution will not withhold tax
- less than 16 years old and earns between \$120 and \$420 from savings accounts per year and
  - provides either their date of birth or a tax file number (TFN), the financial institution will not withhold tax and they don't need to lodge a tax return
  - doesn't provide either their date of birth or TFN, the financial institution will withhold PAYG tax at 47% and they need to lodge a tax return if they want a refund
- less than 16 years old and earns \$420 or more from savings accounts per year and
  - provides their TFN, the financial institution will not withhold tax
  - doesn't provide their TFN, the financial institution will withhold PAYG tax at 47% and they need to lodge a tax return if they want a refund

- 16 or 17 years old, earns \$120 or more from their savings account per year and
  - provides their TFN, the financial institution will not withhold tax
  - doesn't provide their TFN, the financial institution will withhold PAYG tax at 47% and they need to lodge a tax return if they want a refund.

If you have a joint account between an adult and a child aged under 16 years, the same rules apply as those for a 16 or 17 year old.

#### AMOUNT OF INTEREST EARNED

The amount of interest applies to the total interest earned – not just the amount above the threshold (\$420 or \$120, depending on their circumstances). Where a deposit has a term of less than one year, or where interest is paid more than once per year, the ATO applies a daily pro-rata calculation of the threshold (\$420 or \$120 depending on their circumstances).

#### LODGING A TAX RETURN

If your child has had PAYG tax deducted, you will need to lodge a tax return on their behalf if they wish to claim any refund owed. If your child does not have a TFN, you will need to get one before you can lodge a tax return on their behalf.