Dollars & Sense: What you must know before gifting property to your kids

Our financial adviser says many retirees unintentionally compromise their financial security out of good intentions to help their children, while a reader asks about super and tax.

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Welcome to our Dollars & Sense column. While in no way is it formal financial advice, it is a way to stress test your decision-making, to find out potential financial implications before you make your choice, and to discover more about structuring your affairs so that your money works harder for you. Submit your questions to dollarsandsense@theaustralian.com.au.

I own a city residence outright, in which my adult daughter lives rent-free. By my current will she will inherit the property on my death. However, I am now considering gifting the property to her so she will own it in my lifetime. What are the implications if I were to do that?

Karen, Perth

Before gifting your property to your adult daughter now rather than for you waiting to die requires some serious thought as it can lead to significant financial and legal implications including Centrelink, capital gains tax (CGT) and stamp duty.

If you currently receive the age pension, gifting your property can significantly affect your entitlement. Centrelink applies gifting limits: you may gift up to $10,000 per financial year, capped at $30,000 over five years.

Any amount above these thresholds is treated as a deprived asset and continues to be counted in your assets test for five years, potentially reducing or eliminating your medium-term pension payments. Even if no money is exchanged, Centrelink will assess the market value of the gifted property.

Importantly, after five years, the gifted asset is no longer assessed under Centrelink's assets test. This means that, while there may be short-term impacts on your pension eligibility, a well-timed gift before turning 67 (the age pension age) could allow your daughter access to home ownership and you a larger fortnightly income from the government, depending on other assessable assets of course.
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Australia does not (yet) have a specific gift tax, but gifting property is still considered a CGT event. The ATO applies the market value substitution rule, meaning you are deemed to have disposed of the property at its market value, regardless of whether you received any payment.

Assuming the property you are considering gifting was not your main residence, you will potentially be hit with a tax bill you might not have been expecting.

Stamp duty is also probably payable by your daughter as the "buyer" of your property and is calculated based on the market value of the property, not the amount paid (which in this case is zero).

Your daughter, as the recipient, will be responsible for paying this duty. While some exemptions exist (for example, transfers between spouses), parent-to-child gifts typically do not qualify.

Even if the above issues do not deter you, it's crucial to ensure you are in a strong financial position before gifting and losing control over a significant asset such as a property. At a minimum, you should have sufficient rainy-day funds and be financially independent.

Ideally, your own home should be paid off, and your retirement plans fully funded. Many retirees have unintentionally compromised their financial security out of good intentions to help their children. It's important to avoid becoming one of them.

How is my super taxed if I leave it to my wife when I die?

I am 65 years of age. I have more than $1m in superannuation in an accumulation account. If I die and leave this sum to my wife, the taxable component will not be taxed at 17 per cent. If she is in the pension phase, I assume any amount over $2m in a pension account will go into an accumulation account. Can she withdraw a lump sum and my original funds will not get taxed at the 17 per cent rate before she dies? Or are my funds "quarantined" from hers so that when she dies and it is left to a non-dependant (child), it will eventually be taxed at 17 per cent?

Michael, Brisbane

Firstly, I would not wait for you to die before "doing something" about the possible tax payable by your adult children. At age 65, working or not, you can access your superannuation as a tax-free income stream, and you can still make tax-free (non-concessional) contributions to superannuation right up until your 75th birthday. This opens the door to powerful strategies such as withdrawal and recontribution, which can reduce the taxable portion of your super and improve outcomes for non-dependent beneficiaries.

Starting a retirement phase pension at 65, even if you don't need the income, is highly beneficial. Once in pension phase, earnings within the account are tax-free, compared to 15 per cent in accumulation phase.

This not only boosts your after-tax returns but also enhances estate planning flexibility, allowing you to take additional amounts from the fund and then add them back in to super as a tax-free contribution (subject to caps). This is known as a withdrawal-recontribution strategy and helps convert taxable components into tax- free components, which are not taxed when passed to non-dependants. Your wife, assuming she is also over 60 and retired, can consider doing the same.

Upon your death, your super can be paid tax-free to a dependant – such as your wife – as a lump sum, a pension, or a combination of both. If your spouse receives a reversionary pension, it continues automatically and counts towards her transfer balance cap (TBC), which as of July 1, 2025 is $2m. If she already has a pension, any excess over her cap must be paid out as a lump sum – it cannot be rolled back into accumulation phase.

If your super is left to your wife upon your death, no tax is payable on the remaining taxable component. However, if she later dies and leaves the remaining super to a non-dependant (for example, your adult child), the taxable portion will be taxed at 15 per cent plus the Medicare levy (total 17 per cent), as you point out.

With the ability to now add tax-free contributions to super all the way to age 75 implementing a withdraw-recontribution strategy over a long period of time can significantly reduce or even eliminate the tax payable by your adult children once you have both died.