

STUART CARLYON

Financial advisers for your lifetime goals

Emptying the nest

How do you feel about the kids leaving home? A number of our clients reach this turning point when their child, or children, fly the coop and to be honest, we see mixed reactions. There may be wistful responses as the home empties out. But for many others the moment is likely to be marked by the pop of Champagne. Free at last! A new stage of life begins.



The Patton Family

The freedom is a product of time and of money. Time is freed up because you're not doing their laundry or navigating around the busy lives and demands of young adults in the household.

The money impact is also immediate. It is only when adult kids leave home that parents realise just how much of the grocery bill was dedicated to feeding not only the son or daughter, but also their boyfriend/girlfriend or friends. The energy bill takes you back to levels you haven't seen since the early 1990s. Each week you seem to have more cash and it would be tempting for financial advisers to urge you to devote this jackpot to your own retirement planning.

But that's perhaps too simplistic. In truth, while newly freed-up couples are more likely to take a vacation, boost their retirement savings or renovate their home for the next stage of their life – there is still the question of whether the children's financial demands still need consideration. There's a niggling voice that says: "those kids may need to lean on us at some point."

A lot of this depends on whether the child or children are moving into a home of their own or are choosing to do what many Kiwi kids do: shoot off overseas in search of opportunities.

This is what happened with James, son of Mark Patton, adviser at Stuart Carlyon. James was offered a graduate role in Melbourne and saw this as a real opportunity to broaden his work and life experience. Mark says, "I can relate to my son's situation. I myself felt the call to experience work offshore. I did the same at various times when I lived and worked in Hawaii, Japan and the UK."

Mark's son James has the view that with the right skills, young people have a choice of country and need to make the most of the experiences.

"Of course, as parents, there are worse things than having an excuse to visit cities like Melbourne and beyond," says Mark "in fact we planned our first visit to coincide with Fathers' Day."

But part of the OE package is a likelihood that the son or daughter won't put down solid roots. One consequence is the way your garage becomes the de facto storage container for your departed children's stuff – the snowboard boots, the old laptop – but there are also financial implications for both parties. For example: are the kids covered for medical insurance? What about those outstanding student debts?

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Reports Mark: "The issue James and I were considering was how to join a health insurer early in life, so that you benefit from pre-existing conditions cover, but want the flexibility to move countries for a global career. Southern Cross offers no cover if you're out of NZ, so the lifelong cover James has had is of no use. I guess some multi-national companies might offer cover, but how do you solve this dilemma independently?"

These kinds of issues need discussion. There are decisions to be made about Kiwisaver, and about student loans while overseas, and maybe filing any final tax returns.

Without a bit of wise parental oversight, the children – even when they're old enough to look after themselves – can avoid some financially sticky situations.



Cross border issues

Another impact, on the parents, is that having offspring in overseas jurisdictions poses thorny issues if you have a Trust, or you decide to gift or loan money to help the children establish themselves in London or wherever they are heading. Not many kids will say no to their parents' largesse – but this could bite the parents. Where children are beneficiaries of a Trust, their residency can raise tax or compliance consequences. There are lots of fish hooks in the ocean of international taxation.

“...having offspring in overseas jurisdictions poses thorny issues if you have a Trust...”

In common destinations such as the US, UK and Australia, each have their set of rules with regard to their residents. Be mindful of this if you have a Family Trust designed to support your children.

- For USA, if your child becomes a US citizen or US tax resident their worldwide income is assessed by the IRS, including disclosure if they are a beneficiary of a NZ Trust along with declaring in their US tax returns any distributions received from the Trust.
- For UK, if the New Zealand based Trust has UK resident beneficiaries, that fact can trigger the Trust to register with the UK tax authority. Also, the dividends received from any UK shares held by Trust may become taxable to the trustee at the UK's rather steep income tax rate of 45%.
- Most Kiwis going to Australia will be temporary residents and as a beneficiary of a Trust, there are no tax or compliance implications. But if the Kiwi happens to become an Australian citizen or marries an Australian citizen or permanent resident, in some instances any capital distribution by the Trust may be included as assessable income.



Generally speaking, Trusts are problematic to overseas jurisdictions, so it is important to seek advice on whether it may be better for overseas based beneficiaries to receive inheritances instead via your Will. So, if your youngsters are leaving the nest don't pop the Champagne just yet. As with every change in life stage we

recommend reviewing your situation with your financial adviser, lawyer and accountant to make sure that neither they nor yourselves are exposed to unnecessary tax or compliance implications.

Parasites

It wasn't intentional to add a story about the Korean movie Parasite in the same issue as we talk about kids leaving home – so please don't read anything into the coincidence. We just wanted to rave about the movie which centres on a family of layabouts who ingratiate themselves into the lives of a rather spoilt family who are quite at ease treating their servants like dirt. So just who are the parasites? The film clicks together as subtly as a puzzle-box and the tension gets more intense. That's when a big plot twist occurs, we won't give it away, but everything comes badly unstuck. Parasite has had a good run in the cinemas and is also worth looking for on the Netflix's of this world.

Warning: there's a generous splatter of blood at the end. That's what happens when people don't use their money wisely.



A still from the film Parasite directed by Bong Joon-ho

New rules for Trusts

The role of Trusts has been under close Government scrutiny for the past year or two, and the revisions have now been enshrined in the Trusts Act 2019. This is the first overhaul in sixty years of family trusts and how these must operate. Here are four implications:

1. Greater onus on trustees. The Act provides for five mandatory trustee duties that cannot be excluded from a trust deed.
2. Clear rules about telling beneficiaries about the Trust and when trustees are required to provide them with regular information.
3. Practical and flexible trustee powers that allow trustees to manage and invest trust property in the most appropriate and prudent way. With this freedom comes exposure to disputes.
4. Need for modern dispute resolution procedures.

The new law will come into force on 30 January 2021. If you have a family trust we recommend you review your situation to see how the changes will affect you.