How to Leave Your Kids a Million Aussie dollars...Each, Through Australian Property Investment, Without Needing a Huge Deposit and Without Having to Outlay Massive Savings Every Year

MIKE BENTLEY

A real estate story by Mike Bentley.

This chapter is an additional chapter to my earlier books on investing in Australian property.

If you have read my previous books, you will know my philosophy about how to grow your portfolio.

However, this chapter is brand new and may be the most important chapter of all for many.

And it **is not about growing YOUR portfolio**.

Instead, it is all about actions you can take now to secure your children's future in an uncertain and increasingly difficult world.

What inspired me to add this particular chapter was all the media talk recently about the unaffordability of Australia's housing, and how young people will "*never be able*" to get into the housing market.

In the meantime, I have purchased second, third and even fourth homes and apartments for some clients over the past 12 months, several buying for their young children, exactly as I am about to suggest.

But I know many of you have slowed or even stopped buying property in Australia in the past years.

Foreign investor taxes, loan difficulties, rising interest rates, high prices, apartments stagnating in value and so on.

There have been **many deterrents** over the past few years.

So this chapter aims to give you a way to give your children an unbelievable gift.

A gift of 1 million Aussie dollars!

And a roof over their head.

And for them to **never have to be a "renter"** again.

So this actually is a real estate story. And it's about you. And your family.

Let's imagine for a moment you have 2 children.

Aged 1 and 3. Or 2 and 5. Or 6 and 7. It doesn't really matter.

But for this example let's say they are BOTH aged 3. (they must be twins!)

And since we *can't know the future let's go back in time* as by doing that, **we do know** what actually happened.

So we go back in time to 1990.

Depending on when you are reading this, we will take it up to 2023 so your kids are now in their mid 30's.

A perfect age for what you are about to gift them.

They are getting established in their career, and are starting their own families, but can't get into the property market as "*house prices are too high*".

That sound familiar?

It should. Generation after generation have been saying that **prices are too high** for young people to ever get a house.

When I started in real estate in the early 1980's experts told me the best days of real estate were over, prices were too high and it was not the right time to invest.

In fact, my own dear Mother, now aged (at the time of writing) 94, when I asked her why she didn't buy a home after she got married, said to me recently "*Dear, prices were way too high back (in 1950!) then for us to be able to afford to buy.*"

So, we are now back in 1990.

You have put off buying because of high prices, stamp duties and taxes.

And your advisors, family and friends all suggest it would be better to **leave money in the safety of the bank** and keep adding to it, due to an uncertain world.

To hedge your bets you decide to do both.

Child A, Alan, or Annie, gets a "house" or perhaps a Townhouse.

Albeit a small one!

Child B, Briana or Billy, (ok, maybe A and B is better!) also aged 3, you place exactly the *same amount of money* in the bank and keep adding to it at the rate of $1,000 a year, until 2023.

For both children, you invest the initial sum of $20,000.

(Remember, this WAS 30 odd years ago!)

For child B, you *add to the initial investment for the next 33 years.*

Firstly, during this journey we are about to go on, when your children went from being very young to middle aged, here are just a few events that shaped the potential outcomes of your money invested. I am sure you can remember others too.

· Early 1990s World Recession, Indian economic crisis, Finnish banking crisis, Sweden financial crisis, Black Wednesday, Asian financial crisis, Russian financial crisis, Argentine great depression, Early 2000s recession, Dot-com bubble, September 11 Attacks, Financial crisis of 2007–2008 and Great Recession, Subprime mortgage crisis - United States housing bubble and housing market correction, European sovereign debt crisis, Greek government-debt crisis, 2015 Chinese stock market crash, COVID-19 recession, 2020 stock market crash and 2022 Russian financial crisis.

Not to mention other events like the **American war in the Middle East, the** dissolution of the Soviet Union, **The EU becoming a reality, Amazon being Born, The Age of Google Beginning,** and **Facebook being founded!**

Will the next 30 years be as turbulent … who knows? But who, really, would have ever expected the world events listed above to unfold back in the early 1990s?

This is what happened for your children.

(The figures are **simplified for the ease of the example**, and do not include buying costs on the house (approx.$5,000), rent received or taxes both on the property and the cash deposits.)

You invest $20,000 as a deposit in a home valued at $142,000 in Melbourne (the Residex medium Melbourne home price at that time) with a loan of $122,000.

Unfortunately, you chose the worst time to invest, Australia was in recession, and house prices did not move for the first five years of your ownership!

You MAY have said "*real estate is not for me*", this investment is a disaster.

BUT instead, you just sat tight.

You had learnt from your research the single most common mistake investors make is "*selling too soon.*"

So you did not take any action, used your rent to pay the bank interest, then forgot about your property, and made **no effort to pay back any of the loan. You also made no further effort, ever, to save any more money for Child A.**

For your other child, child B, you *were glad you didn't buy them a property* as there **had been little growth** for 5 years.

Plus you had taken a "huge mortgage" of $122,000. Who wants debt, right?

Being concerned about the recession, and worried about property prices collapsing – as you had read in the media – and rising interest rates, unemployment, potential oversupply of property and no tenants in the event of a downturn, you decide the best (and safest) strategy *will be to "watch the market", choose the right time to invest, and leave your $20,000 in the safety of cash* in the Bank, and diligently **add to it at the rate of $1,000 a year** for the next 33 years, and let the interest compound yearly.

Which worked out the best for your children?

The bank savings plan, in which you invested $52,000 ($20,000 initially, then $1,000 per year) will reap **$140,660 by 2023.**

Not bad!

Enough to get them started on the property ladder with a deposit, even given today's high prices!

Assuming that $140K is used as a deposit at 15%, that will enable Billy or Briana (Child B) to purchase a median prices home in Melbourne, Adelaide, Brisbane or Perth. property up to $900,000.

It could get also them a small, but very decent apartment in Sydney.

Your idea paid off.

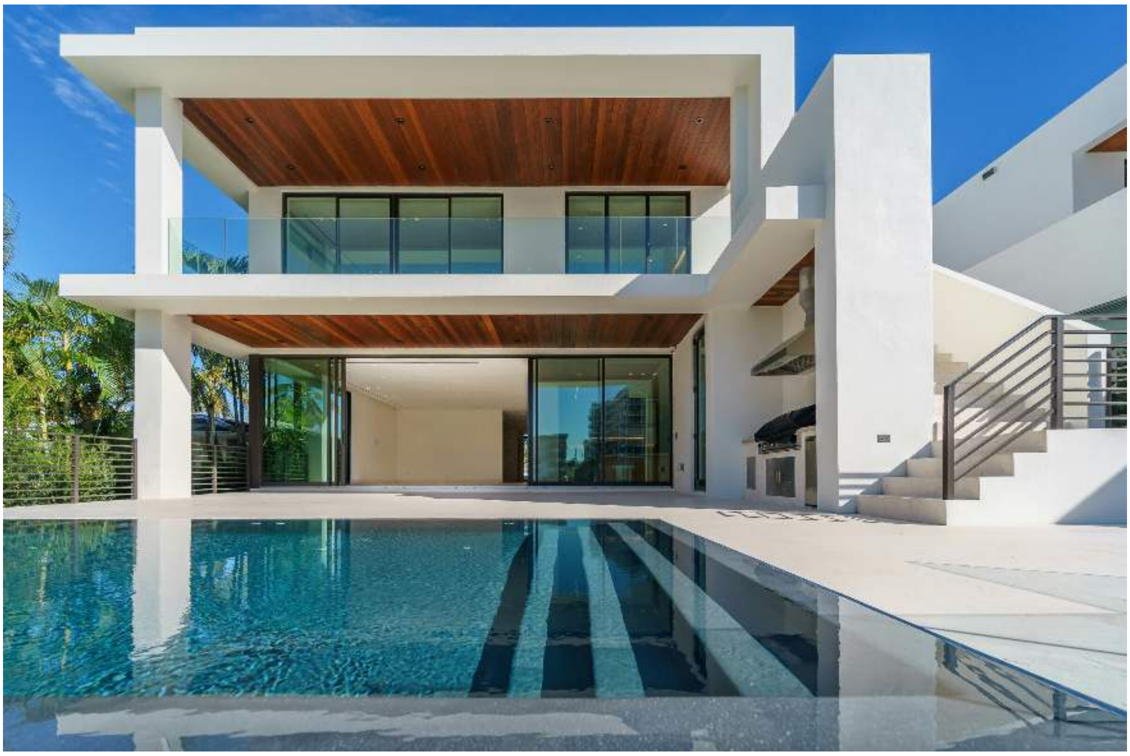
They have a house to live in. Yes, they have a huge mortgage, but they have started.

The property plan in which you invested the same $20,000 initially and then made no further contribution, will reap you $1,069,000 dollars by 2023.

Over seven times more. *A massive difference*. In fact, the property plan will give you a total return of 5,245% on your cash, compared to 170% with bank savings.

Enough to buy for cash an apartment in Sydney, or a decent house in any of the other cities.

OR, if Child A wants to use the money as a deposit like Child B did, and borrow to buy a better home, they can purchase up to $5.35 million, getting them, even at 2023 prices, *one of the best homes in any of the Australian cities.*



(For simplicity, we have not shown the calculations for each year, but the actual 5 years property value is as published by the official Residex Melbourne House Price up to 2010, thereafter the SQM Research Melbourne House prices.)

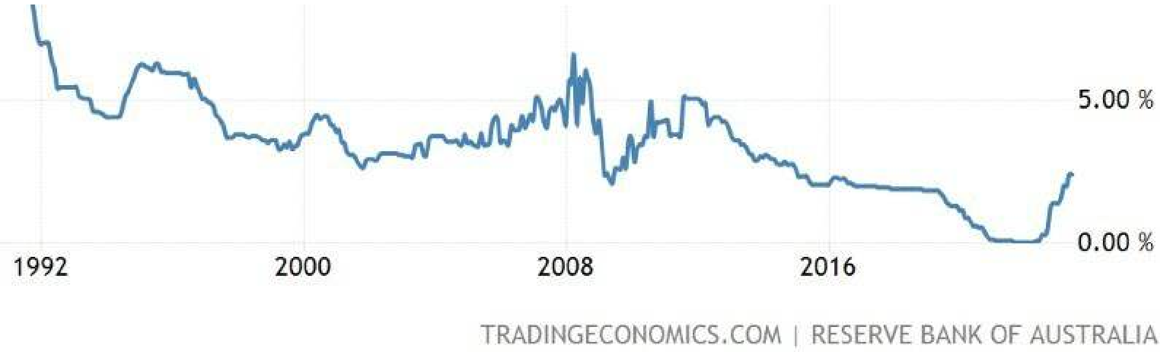
The value is taken at the beginning of the year.

The Bank interest is a constant 4% per annum, with the interest always being reinvested, and $1,000 being added each year.

< No cash surpluses from the rent are added to the property investment, as it is assumed the rents will be used to just pay bank interest and costs.>

Here are the calculation for your reference.

Australia: Bank Deposit Rates 1990-2023



The Property Plan Using Actual House Values 1990-2023 Melbourne

Year starting January	House Value Melbourne	Your Equity	Bank Savings
1990	142,000	20,000	20,000
1995	143,000	21,000	29,866
2000	203,000	81,000	41,869
2005	353,000	231,000	56,473
2010	539,000	417,000	74,242
2015	662,000	540,000	95,859
2020	1,030,000	908,000	122,161
2023	**1,191,000**	**1,069,000**	**140,660**

For the sake of this scenario, let's say you get a steady 4% interest per year (net after all taxes and fees) which you always reinvest. You add Money every single year into the account.

You are convinced that this safe investment strategy plus the constant yearly savings will protect you in the future, and while you know it will not make you rich, you feel secure. It proves to be a very costly error.

Conclusion

The conclusion to this real estate story is that by purchasing a home for your child(ren) using a 15% to 20% deposit to buy quality property in Australia (use my buyer's agent service to help you if you don't have the time or expertise to do it yourself) you can gift them a $1 million dollar property windfall, setting them and their family up for life.

And all from your initial $20,000. (Of course, in today's terms that $20,000 is **significantly more**. However, it is the same principle).

Two Questions Arise

From reading the above, you may well say "*Sounds good in principle Mike, but it pre-supposes prices will always keep rising, and if they do, how do I leave properties to my kids without paying massive Capital Gains Tax, and Stamp Duties?*"

Both of these questions are extremely **valid and important**. So let me address the second first.

There's a saying that you should start most endeavours with the end in mind. This is also important with property.

Most investors own the properties in their own names, which is usually the best way.

But, for this "leave your children a Million "strategy, there are other options out there that may be better for you and the family.

And that's why family trust may need to be considered.

This a popular way in Australia as an estate planning tool among many families - because it gives family members a way of passing control of their property assets to the next generation, without the usual stamp duties and capital gains taxes.

In terms of our strategy, the term 'family trust' refers to an arrangement set up to hold the properties for the children, who has an entitlement to the income or capital from the trust.

Before continuing, the details and explanation of trusts would take up several chapters in their own right!

Also, to be clear, I am not qualified to give any advice whatsoever on trusts and structures, and if you want to consider a trust you **absolutely need to seek the best legal and tax advice you can.**

Briefly, based on my own experiences, the main purpose of a family trust is to transfer assets from one person to another, usually avoiding having them go through probate when you die.

Trusts can hold different kinds of assets, but are ideal for property.

The other purpose of a family trust is to protect assets from creditors and legal problems. Family trusts are also useful for estate planning purposes.

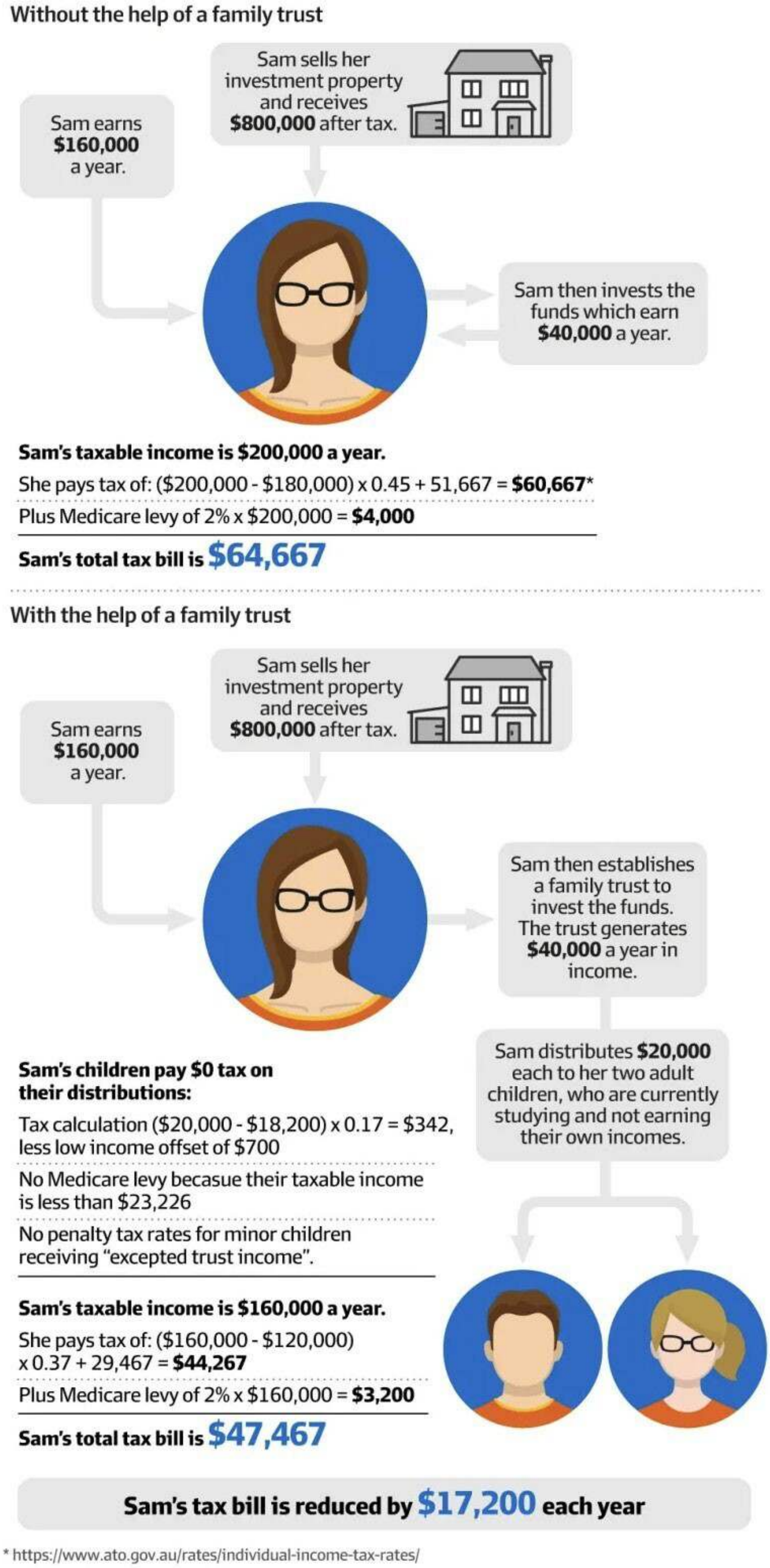
Through a family trust, the ownership of property assets can continue uninterrupted even when a key family member dies.

The trustee is responsible for managing the trust's tax affairs, including registering the trust in the tax system, lodging trust tax returns, and paying some tax liabilities.

Beneficiaries (except some minors and non-residents) include their share of the trust's net income as income in their own tax returns.

There are special rules for some types of trust including family trusts, deceased estates, and superannuation funds.

Here's a hypothetical example of a family trust, provided by Alexis Wheatley to the Australian Financial Review:


Without the help of a family trust
Sam sells her investment property and receives $800,000 after tax.
Sam earns $160,000 a year.
Sam then invests the funds which earn $40,000 a year.
Sam's taxable income is $200,000 a year.
She pays tax of: ($200,000 - $180,000) x 0.45 + 51,667 = $60,667*
Plus Medicare levy of 2% x $200,000 = $4,000
Sam's total tax bill is $64,667
With the help of a family trust
Sam sells her investment property and receives $800,000 after tax.
Sam earns $160,000 a year.
Sam then establishes a family trust to invest the funds. The trust generates $40,000 a year in income.
Sam distributes $20,000 each to her two adult children, who are currently studying and not earning their own incomes.
Sam's children pay $0 tax on their distributions:
Tax calculation ($20,000 - $18,200) x 0.17 = $342, less low income offset of $700
No Medicare levy becasue their taxable income is less than $23,226
No penalty tax rates for minor children receiving "excepted trust income".
Sam's taxable income is $160,000 a year.
She pays tax of: ($160,000 - $120,000) x 0.37 + 29,467 = $44,267
Plus Medicare levy of 2% x $160,000 = $3,200
Sam's total tax bill is $47,467
Sam's tax bill is reduced by $17,200 each year
* https://www.ato.gov.au/rates/individual-income-tax-rates/

Family trusts do offer a variety of benefits when looking to set up this structure for your children's benefit.

To the best of my knowledge, there are also Testaments Trusts which you can set up in you will. Instead of handing the properties over to your kids, if they were purchased in your name, which would then generate Capital Gains tax, stamp duty and maybe agent's fees, the children would be able to take over the properties *without the taxes and duties.*

One of the major risks or disadvantages of a family trust is that it can't distribute capital or revenue losses to its beneficiaries.

As a result, should a trust incur a net loss, its beneficiaries won't be able to offset that loss against any other assessable income that they may derive to reduce tax. In other words, you **can't take advantage of negative gearing benefits** in a Trust against personal income.

Again, **seek professional advice** on this. This is just my understanding.

Once the key decisions around selecting the trustee and appointor of the family trust are made, the next step is to engage a lawyer with expertise in trust law to create the trust deed.

Many accountants can offer family trust setup services, however, they are not themselves usually drafting the trust deed, they outsource it to a legal firm or they use a legal template.

Ideally, a lawyer should be involved with overseeing the trust establishment structure with the assistance and advice of an accountant.

What about being a foreigner?

In recent years, additional real estate stamp duties and land taxes have been applicable to foreign buyers.

Family trusts allow for a very flexible distribution of income to a wide variety of people in your family group.

Plus, this income distribution can range from nil to all of the trust income in any year.

What this all means is that if the beneficiaries have a relative who is a foreigner, that person would be entitled to be considered for a distribution.

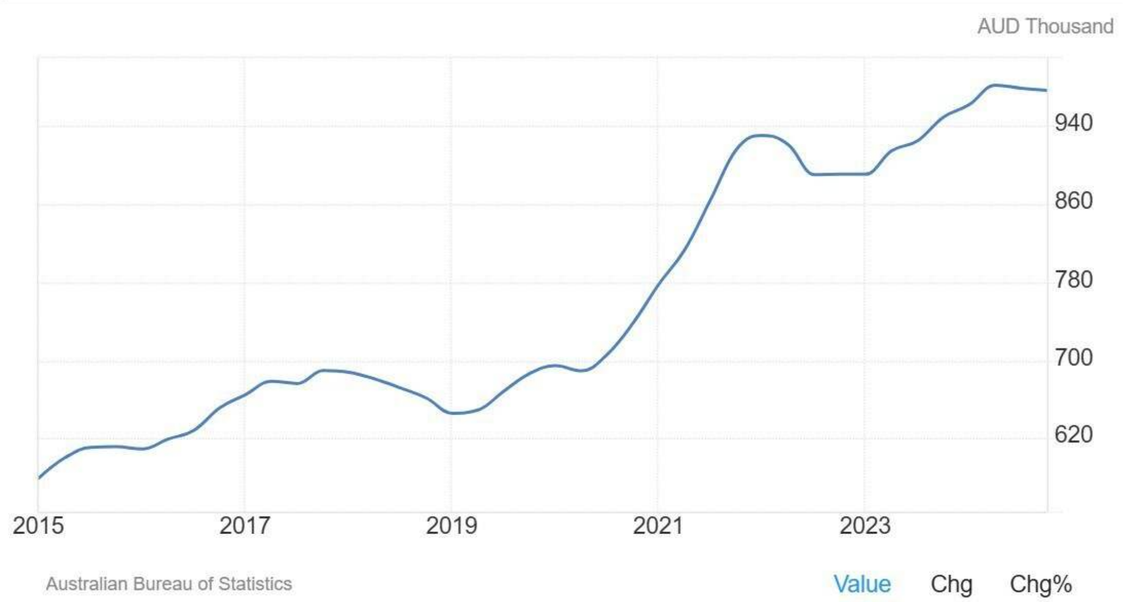
Under recent legislation, therefore, the various state governments would see this as falling within the foreigner category and would apply the higher taxes to the trust. But an actual trust distribution **does not need** to be made to the foreigner. The mere fact that *it is possible to make such a distribution* is enough to be caught out.

Fortunately, there is a solution which ensures that your Family Trust is not impacted by the new State foreign ownership rules – if the right clauses are included.

Again, it is essential to seek professional advice before considering any sort of Trust.

Now in answer to the first question, will prices continue to rise in the future?

If history is any guide, and with the population, migration and economy certain to continue to grow, with building and height restrictions in Australian cities, and with diminishing land, prices seem likely to continue to grow into the future as they have done for the past 100 years.



Australian Mean Dwelling Price

Prices will continue to move ahead slowly and surely. It is never too late to start, and the sooner you start the better to allow the long term compounding to work in your favour.

The above chart conclusively proves this to be so, and if you ever needed a reason to consider a long term property investment this should be it.

The key to this strategy is to get "started."

There is no "magic" but you **do need to buy well.**

Always seek expert assistance when buying, from independent buyers agents, property managers, accountants, surveyors and solicitors.

With patience, time, commitment, and an initial cash deposit, ***the magic power of leverage, inflationary growth, compounding and OPM*** means many investors can benefit through the power of geometric progression by investing in Australian property and holding for the long term.

If the numbers don't convince you - *and there are many people who they won't* - always expecting history won't repeat itself, or that you feel like you don't like the stress of property investing, the costs, the repairs, the headaches, then may I suggest I was just like you.

My own property journey had many headaches and challenges. So I get it!

Best regards,

Mike Bentley

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