

ATO guidance on child bank accounts

- Penal tax rates may apply to bank interest derived by a child
- Make it clear whose money it is
- Beware generous grandparents bearing gifts!
- Shop around for the best bank savings account deals



The recent ATO ruling [TD 2017/11](#) will be of practical relevance to parents. It deals with the topic of who should be assessed for income tax on interest on a bank account opened for a child. The ruling amalgamates a number of previous ATO dealing with this topic.

Here are 7 tax tips relating to child bank accounts from the Tax Team at Chartered Accountants Australia and New Zealand.

1. A child's bank interest can attract penal tax rates in some situations

Check out the [penal rates of tax](#) that can apply to bank interest derived by a child on the ATO website. You can see from the ATO table that keeping bank interest below \$416 is an obvious strategy to stay out of tax trouble.

2. Whose money is it really?

The latest ATO ruling says that: "Where a parent operates an account on behalf of a child, but the Commissioner is satisfied that the child beneficially owns the money in the account, the parent can nonetheless show the interest in a tax return lodged for a child".

The ATO understands that a parent needs to be a signatory on accounts opened for young children. But the money in the bank account needs to genuinely belong to the child, not just be spent on them. Expenses to do with the child – such as school fees, school camps and sport lessons – should be paid from the parents' bank account, not the child's.

Where the bank account is opened in the parent's name under an informal trust account arrangement, control needs to be handed over when the child turns 18.

Also, don't forget to lodge a tax return if it becomes necessary for the child's bank account. The ATO data-matches with banks and conducts follow-up investigations.

3. Should a child have a Tax File Number (TFN)?

Whilst it is true a child doesn't need a TFN if aged less than 16 years, the bank account is in their name, and the account earns less than \$416 interest each income year, a child is nonetheless *eligible* for a TFN from birth.

As noted earlier, practical problems often arise where a parent's TFN is quoted for a bank account that genuinely contains the child's own money.

So getting in early, [applying for a TFN](#) and quoting the child's TFN where possible can be a good idea.

4. Children and part-time or casual jobs

Bank accounts are often opened when a child gets their first part-time or casual job.

Apart from needing a TFN to lodge a tax return, a TFN also avoids over-withholding of PAYG withholding when the child is paid their wages. The child's wages are subject to ordinary income tax rates, not the penal tax rates applicable to bank interest.

However, if the job is in the parent's small business, make sure the salary is arm's length (i.e. reflects what a non-family employee would earn for the same work and hours). A business that pays excessive amounts as wages to relatives will have some explaining to do if the ATO comes knocking.

Pocket-money received from a parent or payment for household tasks, such as mowing the lawn, isn't taxable.

5. Beware generous relatives!

Problems often arise if a generous relative (often grandparents) gift largish amounts of money into the bank account of a child.

Such gifts should be talked through beforehand to avoid penal tax rates on bank interest. For example, it may be better for grandparents to pay for one-off costs rather than deposit money directly into the child's bank account. Alternative strategies such as [insurance bonds](#) or shares may also be a better option.

Grandparents also need to be particularly careful to first ascertain the impact their gift might have on their own government pension entitlements.

6. Family trust distributions

Penal tax rates for children can also apply to family trust distributions made to a child, although special concessions may apply (e.g. for a testamentary trust for a child established as part of the deceased's will). Parents thinking of establishing family trust arrangements should get professional advice.

7. Watch out for bank fees and look for good deals

Not all bank accounts are the same. Seek out the many low fee accounts available from banks for their young customers. Some also offer incentive interest rates (e.g. if no withdrawals are made for a specified period). Consumer group [Choice has a useful website](#) for choosing a suitable bank account.