Taking the guesswork out of *gifting*

It's the season of giving and what better way to show love and support to your family than to gift your children or grandchildren some much needed cash.

After all, as the saying goes it's better to give with a warm hand rather than with a cold one. And in these days of high home prices, school fees and student debt many children and grandchildren could do with a helping hand.

But it's important to make sure your generosity does not see you fall foul of Centrelink which could impact on your Age Pension entitlement.

Gifting rules

If you give away assets while you are on a pension or within five years of qualifying for one, then Centrelink imposes gifting rules[i]. These rules say you can gift a maximum of $10,000 a year or a rolling $30,000 over a five-year period. These figures apply whether you are a single person or a couple.

The aim of the gifting rules is to stop people giving away assets such as money, property or shares to qualify for the Age Pension.

If you gift more than $10,000 a year or $30,000 over five years, then Centrelink will treat the amount as a deprived asset for five years starting from the date of gifting.

As a deprived asset, not only will the sum still be treated as YOUR asset but it will also become subject to the income deeming provisions[ii]. Currently this means you will be deemed to have earned 1.75 per cent on the first $49,200 gifted above the limits if you are single, or the first $81,600 if you are a pensioner couple. Any additional amount will be deemed at 3.25 per cent.

What is deemed a gift?

Gifting can take all sorts of forms. It might be forgiving a loan, donating 10 per cent of your wages to the church, selling a rental property to a relative at below market price or even repaying a business loan where you were guarantor for a relative.

You might also come unstuck if you refuse to accept an increase in your income to maintain your Centrelink pension. Say your superannuation pension were to increase from $6000 to $7000 a year and you declined to receive that extra income, then Centrelink would treat the $1000 as deprived income. What's more, the five-year rule doesn't apply as it's deprived income and will be considered as such indefinitely.

Increase pension entitlements

But if you stay within the letter of the law then gifting can be to your advantage as it can increase the amount of pension you get.

This is particularly important with the new assets test coming into effect on January 1, 2017. While the assets test threshold has risen, helping those at the lower end of the scale, the top level where your part pension cuts out completely has dropped from $1,178,500 to $816,000 for a couple with their own home and from $793,750 to $542,500 for a single home owner.

If you don't own your own home, the upper threshold where your part pension cuts out will drop from $945,250 to $742,500 for singles and from $1,330,000 to $1,016,000 for couples.[iii]

Of course, these gifting rules are irrelevant if you are not seeking to receive a Centrelink Age Pension. If that's the case, then you can give as much as you want to whoever you want, whenever you want.

But if you are already receiving or expecting to get a pension in the next five years, then it is worth making sure you don't cross the line and end up worse off.

It might be a good idea to call us and find out how you can stay within the gifting rules. After all the season of giving shouldn't be giving you heartache!

i https://www.humanservices.gov.au/customer/enablers/gifting#a3

ii https://www.dss.gov.au/our-responsibilities/seniors/benefits-payments/age-pension/deeming-information

iii http://www.superguide.com.au/smsfs/300000-retired-australians-to-lose-some-or-all-age-pension-entitlements