Gifting on the pension

Since the pension assets test changes on 1 January 2017, there has been talk about gifting and how this may affect the Age Pension.

If your clients are considering helping out family or friends, there are important things they need to know about how their payment may be affected by giving away money or assets, or how giving away income is differently assessed.

Gifting is determined when assets are given away without receiving something of at least the same value. This will reduce the net value of their overall assets by the amount they gifted.

It is not classified as gifting if they exchange assets for other assets of equal value.

Examples of gifts include:

- buying a car for their son;
- giving away shares to a friend;
- forgiving a loan to their daughter; and
- having a lender take their funds because they went guarantor for somebody else.

Gifting reduces assets, which may increase the Age Pension. However, there are limits to this.

Single people or couples can give away up to $10,000 in a financial year, although not more than $30,000 over five consecutive financial years, and the only change to their pension would be an increase due to their reduced assets.

It is not appropriate that individuals give away assets, then rely on the community for support. Therefore, any gifts over those thresholds will be assessed as their asset for five years and be deemed to be earning income.

Example

Your client takes $100,000 from their bank account and gives it away. The Department of Human Services will reduce the amount recorded for the bank account, but will also add a $90,000 gift asset for five years. The net reduction is only $10,000, so will only result in a maximum pension increase of $780 a year.

After five years, the gift will no longer be assessed. But even if this results in a pension increase of $7,800 a year, it will take at least 17 years to recoup the original value.

An alternative to relying on increases in the Age Pension obtained from gifting is if your client draws down this amount. This would still have the long-term effect of decreasing assets but without being considered gifting.

If your clients would like more information on how gifting can affect their Age Pension, or other financial questions, they can speak to one of the Department's Financial Information Service Officers or visit humanservices.gov.au and search for 'Gifting'.