

Gifts

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Gifts

A query that surfaces occasionally comes to gifting money to adult children. It is common for people to be aware that there are certain rules surrounding gifting, but it is important to note that the limits don't necessarily apply to all situations.

The gifting rules relate exclusively to social security eligibility. The rules have no impact if you are never going to be eligible for the government age pension. This means that the gifting rules do not limit the ability to gift money to your children – whether it be for assistance with living expenses, debt repayments, or other reasons.

What is a gift? Is there a gifting free area?

A gift occurs if you sell or transfer an income or asset and you obtain less than its value or nothing in return. A gift may be subject to tax consequences.

The government rules limit the amount you can gift in order to increase Centrelink eligibility. For age pension purposes, you are allowed to give up to a maximum of \$10,000 per financial year, limited to \$30,000 over five consecutive financial years. These limits apply whether you are classified as a single or a couple.

Considerations

In practice, this means if you limit your gift to \$10,000, the asset position is reduced by \$10,000 and Centrelink treatment will remain straightforward. However, if total gifts in any financial year exceed \$10,000, then the excess will be counted as financial asset for the income and asset tests for five years, even though it has been given away. For example, if you gifted \$18,000 within a financial year, \$10,000 would be exempted while \$8,000 would continue to count as a financial asset for five years.

Likewise, if you exceed \$30,000 of exempted gifts over a five-year period the excess will also be assessed as a deprived asset.

Some additional points of note are:

- Post the five year gifting period, the funds would cease to exist for Centrelink purposes.
- If a loan to another individual is made rather than a 'gift', the amount will remain in place for Centrelink purposes as long as the loan exists.

Conclusion

In order to avoid unintended financial consequences, planning is key. Before making a gift, it is prudent to confirm whether any gifts have already been made in the current financial year or the previous four financial years.

However, if you're not receiving the age pension, or unlikely to receive it, you can gift as much money as you like to your children (and other family members).

Should you have any queries, feel free to contact your adviser.

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