SMSF NEWSLETTER

June 2015

SPECIAL POINTS OF INTEREST:

1. **Superannuation to be easier to access for those with terminal illness**
2. **Changes coming to the assets test for the Age Pension**

INSIDE THIS ISSUE:

TERMINAL ILLNESS AND SUPERANNUATION

In the 2015 Federal Budget, the Government announced that it would relax the rules around individuals with terminal illness accessing their superannuation savings.

Background - terminal illness payments from superannuation

The superannuation rules generally prohibit access to your superannuation savings unless a condition of release is satisfied (e.g. attaining 'preservation age' and retiring). Preservation age depends on your date of birth and ranges from age 55 to 60.

However, a member with a '**terminal medical condition**' can draw down their superannuation benefits regardless of their age - even though the member may not have met an alternative condition of release.

Without this condition of release, terminally ill members below 'preservation age' would generally be unable to access their superannuation benefits to assist with medical costs - even though they may be no longer be able to work (exceptions apply).

A 'terminal medical condition' exists if:

- two registered medical practitioners have certified a person is likely to die within 12 months from a terminal illness or injury (proposed to be extended to 2 years - see below); and
- one or both of the medical practitioners specialise in the illness or injury suffered.

Furthermore, the certificate must not have expired when the superannuation benefits are accessed. If a member's terminal illness or injury is certified as outlined above, they can access superannuation savings regardless of their age or current work status.

How is the payment taxed?

To relieve the tax burden on the individual and their family, the tax laws state that a superannuation lump sum paid to a member with a terminal medical condition is tax free.

More specifically, the superannuation payment received by a terminally ill member will be tax free if the individual has a terminal medical condition either at the time they receive the benefit or within 90 days of the benefit being received.

The tax free status of the payment applies regardless of the source of the superannuation benefit (e.g. whether it is paid from a large superannuation fund, SMSF or public sector superannuation fund).

WARNING–A payment made due to a terminal medical condition will only be tax free if it is paid as a lump sum. In contrast, a pension payment to a terminally ill member will not be tax free (unless another exception applies, such as the member attaining age 60).

EXAMPLE–Sonya, aged 36, has been diagnosed with breast cancer. Both her doctor and a specialist certify that Sonya's condition is likely to result in her death within 12 months of the certificate (proposed to be increased to 2 years). Sonya can access her superannuation benefits as a tax free lump sum even though she has not yet reached 'preservation age' and retired.

Budget changes announced

Following representation by the Breast Cancer Network Australia and other organisations, the Government will increase the life expectancy period from 12 months to 2 years.

The time period has been extended because it has proven difficult for some people to obtain certification, including for women with secondary breast cancer diagnosis. The change is not yet law, and is proposed to apply from 1 July 2015.

FEDERAL BUDGET CHANGES TO THE ASSETS TEST

"These changes are expected to affect Age Pension entitlements by increasing assistance to those with lower asset levels whilst reducing pension entitlements to those with more assets."

"Mr Morrison also stated that all pensioners affected by the changes to the assets test will be guaranteed eligibility for the Commonwealth Seniors Health Care Card or Health Care Card for those under Age Pension age."

The Government announced changes to the assets test in the 2015/16 Federal Budget. These changes are expected to affect Age Pension entitlements by increasing assistance to those with lower asset levels whilst reducing pension entitlements to those with more assets.

Social Security Assets test

Eligibility for the Age Pension is subject to both the 'Assets test' and the 'Income Test' as follows (other eligibility criteria apply):

- you must pass both tests to qualify for the pension; and
- your benefit payment is based on the lower of the two tests.

Therefore, assets owned by you and your spouse impact on your Age Pension eligibility. Under the assets test, the value of certain assets you or your spouse own (excluding your own home) is currently assessed against the following criteria:

- **Lower threshold (the 'assets free area')** – you are entitled to the full pension if your assets (excluding your home) are below the lower threshold.
- **Upper threshold** – your pension reduces by $1.50 every fortnight for each $1,000 of assets above the threshold (referred to as the 'taper rate'). You will not qualify for the Age Pension if your assets exceed the upper threshold.

Note, different thresholds apply depending both on whether you own your own home, and whether or not you are single. These thresholds are broadly outlined in the table below (exceptions apply):

	Full pension if assets below:	No pension if assets over:
Homeowners		
Single	$202,000	$775,500
Couple (combined)	$286,500	$1,151,500
Non-homeowners		
Single	$348,500	$922,000
Couple (combined)	$433,000	$1,298,000

WARNING–The assets test is quite broad, with assets required to be counted including the following:

- assets held in a private trust or company;
- gifting of assets over $10,000 per annum (subject to a maximum cap of $30,000 over any 5 year period); and
- boats and caravans.

2015/16 Federal Budget proposed changes–Assets Test

The Minister for Social Services, Scott Morrison, flagged two key changes to the Assets test to apply from 1 January 2017, as follows:

- **Increase in the lower threshold (assets free area)** – the threshold is proposed to be increased as outlined in the table below to provide greater assistance to those with lower asset levels; and
- **Reduction in the upper threshold** – under the proposals, your pension is expected to fall by $3.00 every fortnight (instead of $1.50) for every $1,000 of assets over the lower threshold. If the proposals are legislated, it will generally mean that you can own less assets before you cease to be entitled to the Age Pension.

The new thresholds that are proposed to apply from 1 January 2017 are broadly outlined below:

	Full pension if assets below:	No pension if assets over:
Homeowners		
Single	$250,000	$547,000
Couple (combined)	$375,000	$823,000
Non-homeowners		
Single	$450,000	$747,000
Couple (combined)	$575,000	$1,023,000

Seniors Health Card guarantee

Mr Morrison stated that all pensioners affected by the changes to the assets test would be guaranteed eligibility for the Commonwealth Seniors Health Care Card or Health Care Card for those under Age Pension age.

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