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Deeming of account based income streams

From 1 January 2015, the social security deeming rules applying to financial investments will apply to:

- Account based income streams (account based pensions and annuities) with a commencement date of 1 January 2015 or later, OR
- Account based income streams with a commencement date before 1 January 2015 and the individual was not receiving an income support payment immediately prior to 1 January 2015.

Grandfathering rules apply to so the existing deductible amount continues to apply to an account based income stream where:

- The account based income stream commences before 1 January 2015
- The individual receives an income support payment immediately before 1 January 2015
- From 1 January 2015, the individual continues to receive an income support payment

Qualifying income support payments include most social security pensions and allowances, such as:

- Age pension
- Disability support pension
- Carer payment (but not Carer allowance)
- Newstart allowance
- DVA Service Pension
- Income support supplement

Where the primary beneficiary dies and the income stream reverts to a reversionary beneficiary, the grandfathering continues to apply to the reversionary income stream provided:

- At the time of reversion, the reversionary beneficiary is receiving an income support payment, and
- Since reversion, the reversionary beneficiary has been continuously receiving an income support payment.

Defined benefit pensions (eg from SMSF or defined benefit funds) and annuities (excluding allocated annuities) continue to be assessed under the existing rules, regardless of the commencement date.

Implications for your clients

- Pensioners and allowees may wish to commence an account based pension before 1 January 2015 to ensure they receive the concessional income test treatment, time is running out to complete this.
- Clients with an account based pension may wish to consider applying for an income support payment before 1 January 2015, where practical to do so. For example, to secure the grandfathering, an account based pensioner who is age 64 may qualify for Newstart allowance before 1 January 2015 and then qualify for age pension from age 65. Of course, the commencement of the account based pension could impact social security entitlements.
- Clients may consider retiring before 1 January 2015 to commence an account based pension and receive age pension to be considered eligible for grandfathering.

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- Clients may wish to consider commencing a reversionary account based pension to continue the grandfathering for the reversionary beneficiary. However, a possible reduced deductible amount for the primary beneficiary and the prospect that the reversionary beneficiary could be a non-pensioner due to their single status and asset/income position may affect their decision.
- Changing account-based pension providers before 1 January 2015 can have impact on clients so they should confirm if they are happy with their current provider.
- Account based pensions still provide concessional tax treatment. In comparing account based pensions with super or other potential investments, clients should consider the tax and social security implications.
- The income tested fee for aged care clients may increase if impacted under the new arrangements.
- Currently, account based pension withdrawals impact the income test based on whether you take the amount as a lump sum or as a pension payment. Under the new rules, thus does not matter.
- Presently, changing pension payments during the year impacts the assessment under the income test for the remainder of the financial year. This consideration is not required under the new rules.Upon exiting a defined benefit fund, lump sum and pension options (or combinations of the two) may be available. From 1 January 2015, clients who take a lump sum and rollover to commence an account based pension, should consider the deeming of this arrangement, in comparison to the deductible amount of the defined benefit pension.
- Clients receiving income support payments significantly exceeding the Centrelink deductible amount may benefit from deeming of account based income streams. Consider commuting and commencing a new account based income stream on or after 1 January 2015 to take advantage of this. However, if deeming rates increase, the benefits of this strategy may result in a negative impact so clients need to consider their circumstances.
- A common strategy is to commute an account based income stream and reset the Centrelink deductible amount as the recipient ages. In certain circumstances, this may reduce the level of Centrelink assessable income generated from the account based pension. This strategy will be irrelevant from 1 January 2015 as any new account based income stream will be deemed.

Commonwealth Seniors Health Card (CSHC) and deeming of account based income streams

In the Federal Budget, the Government proposed to include deeming on account based pensions as income for the purposes of the CSHC from 1 January 2015. On 17 November 2014 this legislation passed through the Senate and is awaiting Royal Assent.

Currently, the income test for the CSHC is based on adjusted taxable income. From age 60, account based pension income payments (and withdrawals) are received tax-free and therefore no amount is captured as income for the purposes of the CSHC.

From 1 January 2015, CSHC holders will have their account based pensions deemed using the existing Centrelink deeming rules for financial investments, regardless of income stream's commencement date.

If an individual holds the CSHC as at 1 January 2015, the assessment of the account based pension depends on the commencement date:

- If commenced before 1 January 2015, the account based pension is grandfathered and not impacted by the changes
- If commenced from 1 January 2015, the account based pension is deemed.

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Implications for clients

• Those clients eligible for the CSHC who have an account based pension in place before 1 January 2015 continue to have the income exempt from assessment and the account balance is not deemed. Prior to 1 January 2015 there may be an opportunity to ensure that the account based pension is with the right provider.

• Caution should be exercised to ensure that the grandfathering of an account based pension is not lost where this will impact eligibility for the CSHC.

ATO guidance on cross-insurance within an SMSF

Since 1 July 2014 there has been differing opinions within the industry as to whether an SMSF can hold cross insurance for its members. Cross insurance is where insurance on the life of one member will be credited to another member's account. On 17 November 2014, the ATO released the following Q&A.

Can an SMSF take out insurance on a cross-insurance basis?

Regulations that came into operation on 1 July 2014 do not permit cross-insurance on any new insurance products. These types of insurance arrangements are not permitted because the insured benefit will not be consistent with a condition of release in respect of the member receiving the benefit.

If your clients want further guidance on this they should speak to their financial adviser and tax specialist.

Changes to family assistance benefits

From 1 July 2015, the following changes will apply to family assistance benefits:

- limit the family tax benefit Part A large family supplement to families with four or more children (currently paid for the third and each subsequent FTB child).
- remove the family tax benefit Part A per-child add-on to the higher income free area for each additional child after the first (currently the base rate of FTB A is payable until annual income reaches $94,316 plus a child add-on amount of $3,796 for each FTB child after the first.
- The income limit for the higher income earner in a couple, or a single parent to qualify for Family Tax Benefit Part B will be reduced to $100,000 (currently $150,000). FTB B is a payment up to $4,274.15 (including Part B supplement).

Clients receiving family assistant benefits should discuss these changes with their financial adviser to determine if this has an impact on their situation.

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