Aged care and the former home

Summary
One of the major decisions to be made when an individual enters aged care is whether to keep or sell the family home. This bulletin looks at the factors to be considered when making this choice.

Factors to be considered
There are many elements which will influence what an individual entering aged care chooses to do with their home. Whilst a large part of this bulletin is concerned with tax and the Centrelink and Department of Veterans Affairs (DVA) rules, there are many other factors to be considered. These include:

- family considerations,
- cash flow,
- estate planning, and
- sentimental value.

Centrelink and the DVA treatment
Centrelink and the DVA have special rules that apply to the asset and income testing of an individual who is entering care. Please note that these rules are not the same as those that apply when the facility is calculating a resident’s accommodation charge or bond. For information on accommodation bonds or charges, please see TB75 - Hostels and TB76 – Nursing homes.

A resident’s former home will be exempt from the Centrelink and DVA assets tests:

- if the resident’s spouse continues to live in their home, or
- for two years from the date the resident enters care; or
- if the resident is paying either:
  - an accommodation charge, or
  - a periodic accommodation bond
and rents their former home.

In any of these three circumstances, the resident will be assessed as a homeowner for Centrelink and DVA purposes.

A resident’s spouse lives in the former home
As long as a resident’s spouse continues to live in the resident’s former home, the home will be exempt from the Centrelink and DVA assets tests. There are some scenarios that may complicate this situation.

When the spouse also enters a care situation
When the second spouse enters a care situation after the first, the two year exemption will commence from the date the second spouse entered care.

When the spouse temporarily vacates the home
If the second spouse vacates the home for a reason that is not illness or care related, the home ceases to be exempt after the longer of:

- twelve months from the date the spouse vacated the home, or
- two years from the date the resident entered care,
should the spouse not return to the home within twelve months.

These time frames may be extended should the resident be paying either:

- an accommodation charge, or
- a periodic accommodation bond
and they rent the former home.

When the spouse sells the former home
If the second spouse sells the former home and intends to purchase or build a new home, the proceeds that will be applied to the acquisition of the new home will be exempt for up to twelve months. This exemption can be extended to twenty four months in some circumstances.
For more information on this exemption, please read the “sale of principal home to purchase a new home” section of TB 05 – Principal residence and social security.

When the spouse dies
When the resident’s spouse dies after the resident has entered care, the two year exemption period commences at the date of the spouse’s death.

The two year exemption
A resident’s former home is not assessed as an asset by Centrelink or the DVA for two years from the date they enter a care situation. During this period they are considered homeowners.

Should the resident sell their former home during this two year period the proceeds will be immediately assessable.

Whilst the home is exempt under the assets test, any income the home generates will be assessed under the income test unless it meets the conditions discussed in the following section.

The resident pays an accommodation charge or a periodic accommodation bond and rents their former home
Should a resident be paying either:
- an accommodation charge, or
- a periodic accommodation bond
and their former home is being rented, it will not be assessed as an asset under the Centrelink or DVA assets tests. Any rent generated by the former home will also be exempt from assessment under the income test.

This exemption can continue indefinitely. However, should either the accommodation payments or the rental income cease, the exemption will also cease.

The Centrelink and DVA rules do not require that the rent be charged at market rates. The rent received will still be assessable for tax purposes.

Example – rental income and home exemption
Mona was residing in a hostel and paid a lump sum accommodation bond. Mona still owns her home which is and was being rented to cover her costs. During her time in the hostel her home has been exempt under the assets test and would have remained exempt for a maximum of two years. The rental income (after expenses) has been assessed under the income test.

Mona moves to a nursing home within the two years.
Mona is now required to pay an accommodation charge. Mona’s home and rental income is now exempt under the income and assets tests for as long as she is liable to pay the accommodation charge, provided that the home continues to be rented.

Capital gains tax
Capital gains tax (CGT) on the eventual sale or divestment of a resident’s former home is an important consideration when planning for the future.

Selling the former home before, or shortly after, entering care
In most cases, the capital gains tax consequences of a resident selling their former home before, or shortly after care, entering care are quite simple.

Many individuals will have treated their former home as their principal residence for the entire period they owned it. If this is the case, it is unlikely they will pay CGT on the proceeds of the sale as the principal residence is exempt from CGT.

Should this not be the situation, a more detailed analysis will need to be performed and tax advice sought. Technical Bulletin 51 – Capital gains tax and main residence may provide some assistance.

Selling the former home after entering care
Should a resident rent their former home after entering care, it may result in a CGT liability when they eventually sell the home.

A resident can continue to treat their former home as their principal residence indefinitely provided they do not rent it out.

Many residents, however, rent their former home after entering care to utilise Centrelink or DVA advantages. If this is the case, they may only continue to treat their former home as their main residence for CGT for a maximum of six years. Should they then sell their home after the six years has elapsed, they may only receive a partial main residence CGT exemption.

This situation may not be as common as it seems. In 2008 the average stay in aged care was judged to be under three years – well short of six. It is, however a factor that should be discussed.

Individual situations may be far more complex and tax advice should be sought. For more information, please refer to TB51 – Capital gains tax and main residence.
Bequeathing the former home

A resident may hold their main residence until their death, bequeathing it to their beneficiaries through their will. CGT and inheriting property is a complicated area with rules depending on a number of factors. These include:

- When the deceased purchased the property.
- Whether the property was the deceased’s main residence.
- When the beneficiary inherited the property.
- How long the beneficiary has held the property.
- Whether the beneficiary has rented the property.

Some situations are favourable. Where the resident lived in their former home until they moved into care and didn’t rent it out, their beneficiary will not pay CGT if they sell the property within two years of the resident’s death.

Should the resident rent out their former home, it can only continue to be treated as their main residence for a maximum of six years. As such, should they die within six year period, the beneficiary may be able to sell the property without incurring CGT (should other conditions be met). If the resident dies after the six year period has elapsed, their beneficiaries may only receive a partial CGT exemption.

Once again, professional tax advice should be sought however TB23 – Capital gains tax and deceased estates may be of help.

Example – Renting the former home and succession

Tai bought his home when he retired in December 1998. He lived by himself in his home until February 2008 when he entered a nursing home. Tai rented out his former home to help with the aged care fees. Tai died in March 2009 and his former home passed to his daughter Sam. Sam sold Tai’s former home in January 2010.

When Tai died he was still able to treat his former home as his main residence for CGT purposes. This is because he had been renting it out for less than six years after he had moved out. When Sam then sold the home she had no CGT liability because:

- it had been her father’s main residence at the time of his death, and
- she sold it within two years of Tai’s death.

Case study – sell or retain the home

Simone, aged 80 and widowed, is receiving the full rate of age pension. Simone has been assessed as needing hostel care and expects to enter within the next few weeks.

Simone owns the following assets:

- Home $550,000
- Bank account $120,000
- Personal effects $10,000

The hostel is asking for an accommodation bond of $200,000.

The hostel has offered Simone the following options for paying the accommodation bond:

- Pay the $200,000 accommodation bond as a lump sum in full; or
- Pay part lump sum of $100,000 and periodic interest payments on $100,000 at 7.95% pa.

Option 1: Pay the accommodation bond in full by lump sum

If Simone chooses to pay the accommodation bond as a lump sum in full, one option would be to sell her home. Simone would become a non-homeowner and her assessable assets would increase to $480,000 ($550,000 + $120,000 + $10,000 - $200,000). Simone will invest the remaining funds at 7% pa. $470,000 in financial investment invested at 7% pa, giving $32,900 of income per year.

Simone’s age pension would be reduced to $412.40 pf ($10,722.40 pa), while her daily care fees will total $40.65 per day ($36.94 daily care fee and an income tested fee of $3.71). A monthly retention fee would also be deducted by the hostel from the lump sum accommodation bond.

Option 2: Pay the accommodation bond in part by lump sum and in part by periodic payment

If Simone uses this option she would be able to retain her home. Simone may choose to pay $100,000 from her bank account and pay $7,950 pa ($100,000 x 7.95%) in interest, paid periodically at $21.78 per day. To make the monthly payments, Simone could rent her home for $500 per week ($26,000 pa).

As Simone would be paying the accommodation bond in part by periodic payments, the rental income will not affect her age pension (although it would be taxable).

Simone will still have $20,000 sitting in an interest bearing account accruing 7% pa ($1,400). This brings her total annual income to $27,400.

By using this option, Simone’s home will remain assets test exempt as long as the periodic interest payments are made and the home is rented. Furthermore, Simone’s age pension will remain at the maximum rate of $671.90 pf and her home will be available should she be able to return home or preserved for her estate.
Also, under this option, Simone will not be required to pay any daily income tested fees to the hostel as the rental income is not assessable under the income test, a saving of $3.71 per day ($1,354 p.a.). A retention amount is also payable which is directly deducted from the lump sum bond by the hostel.

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<thead>
<tr>
<th></th>
<th>Option 1</th>
<th>Option 2</th>
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<tbody>
<tr>
<td><strong>Selling the home</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from investments</td>
<td>$32,900</td>
<td>$27,400</td>
</tr>
<tr>
<td>Age pension</td>
<td>$10,722.40</td>
<td>$17,469.40</td>
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<tr>
<td><strong>Total inflows</strong></td>
<td>$43,622.40</td>
<td>$44,869.40</td>
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<tr>
<td>Care fees (including retention amount)</td>
<td>$18,425.25</td>
<td>$17,071.11</td>
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<tr>
<td>Periodic accommodation bond</td>
<td>n/a</td>
<td>$7,950</td>
</tr>
<tr>
<td>Property expenses (20% of gross rent)</td>
<td>n/a</td>
<td>$5,200</td>
</tr>
<tr>
<td>Tax and Medicare levy</td>
<td>$2,890</td>
<td>$595*</td>
</tr>
<tr>
<td>Other maintenance and repairs</td>
<td>n/a</td>
<td>Costs will depend on the condition/age of property</td>
</tr>
<tr>
<td><strong>Total outflows</strong></td>
<td>$21,315.25</td>
<td>$30,816.11</td>
</tr>
</tbody>
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*$595 is the amount of Medicare Levy payable. No other income tax is payable due to the effect of the Net Medical Expenses Tax Offset and other Offsets.

**Conclusion**

As can be seen from the above table, both options are likely to be affordable to Simone even though there are significantly higher costs involved with option 2.

The ultimate decision on whether to retain or sell the home will depend on personal needs and preferences. The condition of the home will also be a factor. For example, if the home is in disrepair and the homeowner is unable or unwilling to have repairs carried out, renting the home may not be a viable option. Should the home be rented and consequently become vacant for extended periods, this could also present problems for the individual (as the assets test exemption on the home could be lost). Eventual capital gains tax (if any) on the sale of Simone’s home would also need to be weighed up.

**ING materials**

ING have many document and tools that can be used to understand, and develop strategies around, aged care. These are available on the Adviser Advantage website and include:

- Technical Bulletin 23 – Capital gains tax and deceased estates
- Technical Bulletin 51 – Capital gains tax and main residence
- Technical Bulletin 74 – Introduction to aged care
- Technical Bulletin 75 – Hostels
- Technical Bulletin 76 – Nursing homes
- Technical Bulletin 78 – Aged care and fee reduction strategies
- Technical Calculator 02 – Aged care and pension calculator
- Technical Factsheet 03 – Aged care and special residences fact sheet