



Stuart Sheary, IOOF

Stuart Sheary is a Senior Technical Manager at IOOF and is a regular presenter and author of technical literature covering tax, superannuation, SMSFs, social security and aged care. Prior to joining IOOF he worked at Colonial First State as a technical analyst and has over 14 years' experience in financial services. His qualifications include a Bachelor of Economics and a Bachelor of Arts from the University of NSW. He is also a CFP member of the Financial Planning Association.

COMMONWEALTH SENIORS HEALTH CARD

What strategies can be used to obtain and retain the card?

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Introduction

Self-funded retirees of age pension age may be eligible for the Commonwealth Seniors Health Card (CSHC). The CSHC offers several benefits for seniors. This article explains how eligibility for the card is determined and provides some useful strategies to help your clients obtain or retain the card.

CSHC entitlements

The CSHC entitles holders to:

- prescription medicines at concessional rates through the Pharmaceutical Benefits Scheme (PBS)
- the Medicare Safety Net threshold available to Commonwealth concession card holders
- bulk billed GP appointments (at provider's discretion).

The CSHC can also entitle holders to other concessions from state and local government authorities, including:

- free ambulance transport in case of an emergency in New South Wales
- \$200 energy rebate in New South Wales
- a once-only stamp duty concession when buying a home valued at less than \$750,000 in Victoria
- a 'cost of living concession' which is a South Australian government payment towards living expenses.

CSHC and the energy supplement

Existing CSHC holders who have held the CSHC continuously since 19 September 2016 are eligible for the energy supplement. This is a quarterly payment of \$92.66 for singles and \$69.66 for each member of a couple. Other holders of the CSHC who are entitled to the energy supplement include:

- CSHC holders who were receiving an income support payment, including the energy supplement, on 19 September 2016 and who then subsequently become a continuous holder of the CSHC will also continue to be paid the energy supplement. Please note this is subject to successfully lodging a CSHC claim within six weeks from the day their income support payment ceased.
- indefinite card holders, as mentioned below, who remain continuously eligible for the CSHC will also receive the energy supplement.

Eligibility for the CSHC

In addition to being age pension age, clients must also:

- be an Australian resident and live in Australia
- not be receiving a Centrelink benefit
- have adjusted taxable income and deemed income from account-based pensions which is no greater than:
 - o \$54,929 if single
 - o \$87,884 for couples
 - o \$109,858 for couples separated by illness, respite care or prison.



The quote

Existing CSHC holders who have held the CSHC continuously since 19 September 2016 are eligible for the Energy Supplement.

The income test threshold is indexed annually on 20 September. The threshold is also increased for each dependent child by \$639.60 per year.

Income test exception – indefinite card holders

Clients who lost their age pension entitlements on 1 January 2017 because of asset test changes on this day were issued a non-income tested CSHC. Holders of a non-income tested CSHC may retain their card even if their income exceeds the relevant income test threshold.

How is income assessed?

A client's adjusted taxable income and any deemed income from account-based pensions is counted towards the CSHC income test.

Adjusted taxable income includes:

- **taxable income** – typically verified via the client's Tax Notice of Assessment (TNA).
- **employer provided fringe benefits** – this may be verified via the client's PAYG payment summary (how a fringe benefit is valued varies depending on the fringe benefit, for example a car fringe benefit is a function of the engine capacity, age of the car and number of months in the year the car was available).
- **foreign income** – typically verified via the client's tax return.
- **net financial investment losses** – typically verified via the client's tax return.
- **reportable superannuation contributions** – typically verified via the client's PAYG payment summary and tax return.

Deemed income from account-based pensions (ABP)

The client's ABP account balance as per their latest superannuation statement is subject to deeming at the following current (effective from 1 July 2019) standard rates:

- for singles – first \$51,800 deemed at 1%
- for couples – first \$86,200 (combined) deemed at 1%
- amounts above these thresholds are deemed at the higher rate of 3%.

Grandfathered account-based pensions

Clients who hold an ABP which was acquired prior to 1 January 2015 and have held a CSHC since 31 December 2014 will not have their ABP deemed if they:

- have continuously held the CSHC, and
- retain the same ABP which was acquired prior to 1 January 2015.

This means the ABP will be deemed if the client loses their card, even temporarily, or ceases their ABP and starts a new ABP.

Reference tax year

Eligibility under the income test is typically based on income in the most recently completed tax year. If a TNA is

not available for the most recently completed financial year, then the TNA for the earlier financial year can be used.

Reporting income variations – timing is important

CSHC holders are required to notify Centrelink within 14 days if their adjusted taxable income, plus any deemed income from account-based income streams, combined with that of their partner exceeds their CSHC income limit.

Clients who realise a large capital gain and exceed the CSHC income threshold must report this after they file their income tax return and receive their TNA. While your client may be aware that their income, because of the gain, may exceed the threshold before filing their tax return the reportable event is dependent upon the Australian Taxation Office making the assessment. The client will become aware of this assessment via the TNA.

This differs to any change in circumstance relating to the client or their partner commencing or commuting an ABP. Any variation of deemed income because of these actions need to be reported within 14 days.

Using an estimate

Where an applicant's, or a CSHC holder's, income reduces or exceeds the income threshold in their 'reference year' and the variation of income is connected to a one-off event or change in personal circumstance then an estimate of income for the current financial year may, subject to approval from Centrelink, be accepted.

Acceptable events may include:

- reduced income because of retirement or partial retirement
- increased income from taxable withdrawals from a super or retirement saver account to cover costs for:
 - medical and health care or services
 - transition to assisted living arrangements
 - certain costs after a catastrophic event or natural disaster.

Realising large capital gains

If a couple were to sell an investment property to fund their entry into residential aged care and in the process realise a large capital gain that pushes their income over the CSHC income threshold then Centrelink may, in some situations, allow the couple to use an income estimate to determine their eligibility for the CSHC. Similarly, the realisation of a capital gain outside the client's control, for example, due to a compulsory share acquisition, may in some situations also be acceptable as a reason to allow the client to provide an income estimate for the current financial year.

However, an irregular event such as the sale of an investment property not linked to one of the previously mentioned acceptable events is unlikely to be a reason for Centrelink to accept an income estimate.

Estimating income for the current financial year

If the client experiences an acceptable one-off event al-

lowing them to provide an income estimate, for example, retirement, then the estimated income for the current financial year must be below the CSHC limit. This means if a client retires part-way through the year and expects income to be minimal in the future they may still have to wait until the new financial year before applying for the card.

As an example, a single client earning \$120,000 a year who retires mid-financial year (1 January) will have received too much employment income (\$60,000) during the year and will have to wait until the new financial year to apply for the card. This process differs from Centrelink's treatment of income for the age pension where past income received that is not anticipated in the future is disregarded.

Strategies to retain the CSHC

Rolling part of a deemed account-based pension back to accumulation

Assuming a couple has no adjusted taxable income, they can have approximately \$2,986,900 combined in deemed account-based pensions and still be eligible for the CSHC. In comparison, a single person can have approximately \$1,865,500 in a deemed account-based pension, assuming they have no other adjusted taxable income. Only ABPs are deemed for assessing eligibility for the CSHC. Monies in super accumulation are not deemed. Clients with adjusted taxable income and deemed income above the CSHC income limit may wish to consider rolling over part of their deemed ABP back to super accumulation phase. In considering this strategy the tax on earnings on assets in accumulation phase will need to be measured against the benefits of obtaining or retaining the card. Earnings on assets supporting a retirement phase income stream such as an ABP are not taxed.

Investment bonds

Investing in an investment bond may be a strategy to retain or obtain the card. Investment bonds are internally taxed and do not produce assessable income for the client unless it is redeemed within 10 years, there is also no deeming on these investments. Please note, clients should be aware that earnings are taxed within the investment bond at 30% rather than the client's marginal tax rate which may be lower or nil.

When income is within the CSHC limit tax returns should be lodged promptly

If a client loses their CSHC due to failing the income test but expects income in the subsequent year to be within the CSHC limit, then they can promptly lodge their tax return to regain the card sooner. If they do this then they may be without the CSHC for only a brief period.

Case study

Anu sells an investment property and realises a large capital gain in the 2017/18 financial year. Anu has been lodging his tax returns through a registered tax agent for many years and lodges his tax return on 14 May 2019 through his usual tax agent. On 3 June 2019 Anu receives his TNA. Unfortunately, his TNA confirms that his income in the 2017/18 financial year (the relevant financial year) exceeded the CSHC income test threshold. Anu notifies Centrelink on 14 June 2019 (within the required 14-day timeframe) and his card is

immediately cancelled. Please note that the CSHC must not be used after Centrelink advises it has been cancelled.

Anu expects his income in the 2018/19 year to be within the CSHC income limit and promptly lodges his tax return for the 2018/19 year on 3 July 2019. Two weeks later he receives his TNA for the 2018/19 year confirming his income in the year was below the CSHC income limit. Anu promptly submits a re-claim for a Commonwealth Seniors Health Card form (SA 296A) and is re-issued a CSHC, so he is without his CSHC for only a short period.

Keep track of all available deductions

Single clients who are entitled to the Senior Australian Pensioner Tax Offset (SAPTO) can earn approximately \$33,085 before paying tax. Clients entitled to SAPTO who are a member of a couple may receive approximately \$29,780 before paying any tax.¹ Deductions are typically beneficial; however, there may be less incentive for clients who are not liable to pay tax to keep records of tax-deductible expenses. Clients with higher incomes may benefit from deductions to reduce their taxable income and associated tax liability. As deductions, excluding investment losses, can decrease adjusted taxable income, clients should keep track of available deductions as this may assist them obtain or retain the CSHC. Charitable donations to entities with deductible gift recipient status and expenses incurred in producing income are generally deductible.

Timing retirement and termination payments

Employees approaching retirement can have significant leave entitlements. This unused leave can be in the form of annual leave and long service leave. Retiring employees may have options as to how they can receive their leave benefit. They may have the option to take a cash lump sum on termination or take paid leave and terminate employment when their leave runs out. In addition to tax considerations, clients may also want to consider how taking their leave and the timing of a termination payment will affect their eligibility for the CSHC.

Add a reversionary spouse to a grandfathered ABP

Where a grandfathered ABP automatically reverts to a spouse who holds the CSHC the pension will retain its grandfathered status. Clients who are members of a couple and hold a grandfathered ABP may wish to add their spouse as a reversionary pensioner for the benefit of the surviving spouse. However, as ceasing the ABP and recommencing it results in a loss of grandfathering status, clients should check with their super trustee that they allow for the fund to add a reversionary beneficiary without re-commencing the pension.

Conclusion

The CSHC card can provide valuable discounts for your clients. Understanding how income is assessed can help clients obtain and then retain the CSHC. **FS**

Notes

1. These figures include the Low Income Tax Offset (LITO) and the Low and Middle Income Tax Offset (LMITO). Legislation recently passed to increase LMITO effective 1 July 2018.