Client fact sheet: CFS01

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Renting your home
Residents entering from 1 January 2017

What is the strategy?

If you decide to keep and rent your former home after moving into care you may be able to increase income to help fund your fees. However, to assess the overall impact it is important to understand the impact on your Centrelink / Veterans' Affairs (DVA) benefits and means-tested care fees.

Warning: The rules changed on 1 January 2017 and this strategy explanation only applies if you move into permanent residential aged care after this date and do not have a spouse (or protected person) still living at home. Different rules that provide further concessions may apply if you or your spouse moved into care before this date. Rates and thresholds are current to 19 March 2022.

How does it work?

Impact on age/service pension
If you were living in your home before moving into care, you will remain a homeowner for the first two years or until you sell the home. During this period, your home is an exempt asset when calculating your pension entitlements.

At the end of two years in care, you will be switched to a non-homeowner and the market value of your home (if still owned) will become an assessable asset. This may cause you to lose all or some of your age/service pension.

For the whole period, any rental income you receive is assessable income. You can reduce this amount by allowable deductions. This may impact your pension under the income test.

Impact on aged care fees
When determining your aged care fees, if your home is not occupied by your spouse or other eligible (protected) person, your home is assessable at a capped asset value (currently $175,239.20). If the net market value is lower, the lower amount applies instead.

If applicable, this capped value (indexed) will apply indefinitely regardless of whether your home is assessed or not by Centrelink/DVA.

In addition, any rental income you receive is assessable income. You can reduce this amount by allowable deductions.

The asset and income assessments may impact how much you pay in care fees and whether you are assessed as a low-means resident for concessions on accommodation payments.

Impact on taxation

Any rental income you receive is assessable for tax purposes and you may need to lodge annual tax returns. Some expenses can be claimed as deductions when preparing your tax return.

Tip: If you rent your home to a family member or friend at a discounted rate (less than normal market rent), you may not be able to claim all of your expenses as a tax deduction. You should seek tax advice.

Your home can remain a capital gains tax (CGT) exempt asset for up to six years after you move into care (providing you do not claim this exemption on another home). If you purchased your home before 20 September 1985, CGT does not apply.

Depending on the rules in your state/territory, land tax may also be payable.

Impact on estate planning
If you are the sole owner or own your home as tenants in common, your share of the home will form part of your estate and will be distributed in accordance with the provisions of your Will.

CGT exemptions may continue to apply for another two years, depending on circumstances and tax advice is needed. If the home continues to be rented after you pass away, the rental income received after death is taxable income to the estate.

What you need to consider

Renting your home can generate additional income which can help to pay your fees and living expenses. But you need to review your full financial situation to ensure you have sufficient cashflow or access to liquid assets to meet your expenses. You also need to consider the risks of holding an investment property.

If you don't have a lot of other assets, the decision to retain your home may mean you don't have enough cash to pay the full refundable accommodation deposit (RAD) for your accommodation. Instead, you may need to pay some as a daily accommodation payment (DAP). This may put extra pressure on your cashflow.

Warning: If your spouse entered residential care before 1 January 2017 but you move into care after that date, some additional concessions may apply for the former home if they paid some DAP instead of the full RAD. Financial advice will be important to determine the impact on your financial situation.

Costs to consider

Before renting, you will need to consider the upfront costs you may need to spend to prepare your home for rent, the ongoing costs of maintaining the home and any other risks associated with renting your property.

Upfront costs could include:

- Renovation or repairs
- Advertising costs and upfront agent's fees.

Ongoing costs and other issues could include:

- Agent management fees
- Council and water rates
- Repairs and maintenance
- Land tax
- Insurance costs (landlord's or rental property insurance and home building insurance)
- Risks with tenants and potential vacancies
- Time and effort to manage the upkeep and maintenance of the home or rental arrangements.

Rental agreement

You could choose to rent your home privately to a friend or family member, or commercially through a real estate agent.

Once you have found a tenant, it is important to put in place a rental agreement. If renting commercially your agent will arrange this process. This agreement should include the name of the tenant, the amount of weekly rent and the date that the property was rented.

Tip: If renting privately, organise for the rent to be deposited into your bank account on a regular basis (for example, weekly, fortnightly, or monthly). You can then use your bank statements to verify the rent that you have been receiving.

The recording of regular rent and the existence of a rental agreement is important evidence when determining your assessable income for Centrelink/DVA and taxation purposes.

Case study

Mark receives a part pension of $22,854 per year. His home is worth $1,500,000 and he has $300,000 in financial assets.

Mark moved into residential care on 1 September 2021 and needs to pay an accommodation payment of $250,000. If he sells his home after the move, he will lose his pension and pay a higher means-tested care fee.

If Mark keeps and rents his home, the rental income is assessable for the Centrelink/DVA income test. He stays a homeowner for two years, with the home an exempt asset. He will remain eligible for the age pension, but at the end of two years his home becomes fully assessable, and he will lose the age pension at that point.

The rent is assessable income, and the home is assessed at the capped value of $175,239.20 when determining his aged care fees.

The following table compares Mark's options for renting or selling the home and how to pay for his accommodation.

	Option 1	Option 2	Option 3
	Rent home	Rent home	Sell home
Cashflow (per annum)			
Interest (at 0.20% pa)	600[1]	100[2]	3,100[3]
Rental income	26,000	26,000	-
Centrelink age pension	11,656	14,433	-
Total cashflow	**38,256**	**40,533**	**3,100**
Aged care fees (per annum)			
Basic daily fee	19,549	19,549	19,549
Means-tested care fee	10,303	8,911	28,792[4]
Daily accommodation payment	10,100[5]	-[6]	-[6]
Total aged care fees	**39,675**	**28,183**	**47,578**
Other expenses (per annum)			
Lifestyle expenses	5,200	5,200	5,200
Tax (including Medicare)	876	1,745	-
Total other expenses	**6,076**	**6,945**	**5,200**
Total expenses	**46,028**	**35,405**	**53,541**
Cashflow position	**(7,772)**	**5,128**	**(50,441)**

1. Interest on $300,000 financial assets
2. Interest on $50,000 financial assets
3. Interest on $50,000 financial assets and home sale proceeds of $1.5 million (sale costs ignored)
4. Means-tested fee, capped at $28,792 per annum
5. Mark pays for accommodation fully as a DAP (ie $250,000 at 4.04%) (rate in September 2021)
6. Mark pays for accommodation fully as a lump sum RAD of $250,000

In this case, Mark can minimise aged care fees by renting the home and cashing his other investments to pay the full lump sum RAD to pay for his accommodation. However, he has less available cash reserve.

The first important step is to look at the cashflow line. This shows whether he has enough income to meet fees. Living expenses and home maintenance expenses should also be added. In this case, if Mark keeps the home and pays the full DAP, he will not generate sufficient cashflow but will be able to drawdown on his investments to meet the shortfall.

It is also important for Mark to consider his total wealth position, especially in two-years' time when the home becomes an assessable asset, and he loses the age pension. At this point, the rental strategy may no longer be viable.

Tip: Only pay the RAD if this leaves you with sufficient cashflow or other assets to fund your expenses. It is also important to consider the implications into the future.

A reasonable cash reserve is important with a rental strategy to cover any unforeseen costs or periods where rental income is not being received or for maintenance.

When is it an appropriate strategy to use?

Renting your former home may be an appropriate strategy if you move into permanent residential care from 1 January 2017, plan to retain your former home and:

- Are happy to rent your home to generate additional income
- Do not want to sell your home and wish to understand the impact on your Centrelink/DVA benefits and aged care fees
- Have sufficient income and available assets to pay aged care fees, living expenses and costs associated with maintaining and renting the home
- Are conflicted about moving into residential aged care and would like to keep your home in case you change your mind
- There is potential for good growth on the family home or current market conditions for selling are unfavourable.

A mixture of these considerations usually determines whether the strategy is appropriate. Seeking financial advice and discussing the options with your family are both important steps in making a fully informed decision. Each person's situation is unique, and advice is always important to compare and evaluate options.

An Accredited Aged Care Professional™ can help you to identify options and choose the option that best suits your personal situation and objectives.

Rates current to 19 March 2022.

Want more information?

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