Wealth Adviser

ISSUE 137 MAY 2026

depositphotos.com

WHEN THE LOAN BECOMES A GIFT

Why Family Lending Needs a Document

INSIDE

1 When the Loan Becomes a Gift: Why Family Lending Needs a Document

5 The Home You're Sitting On: Reverse Mortgages and the Government Scheme Almost No One Knows About

9 Working Past 65: How Tax, Super, and Centrelink Now Fit Together

13 Q&A: Ask a Question

BY WEALTH ADVISER

In 2009, an elderly Queensland couple transferred $98,000 to their son to help with a struggling business. Over the years that followed, more money flowed across – further transfers, then access to the father's credit card, which the son used to run up another $13,000 of debt. Throughout, the conversations were informal. The son once said he would "definitely repay the monies back and even more". There was no written agreement, no schedule of repayments, no specified interest rate. The parents' bank statements described the transfers as "loans". The parents' ledgers, such as they were, did not.

When the parents eventually demanded repayment in 2015 – after the son had stopped showing any inclination to pay – they ended up in court. At first instance they lost. The District Court found that the verbal statements and informal context were more consistent with the son being "morally obliged" to repay rather than legally bound to do so. The total being claimed at that point had grown to more than $286,000 with interest. The parents appealed and, in Berghan v Berghan [2017] QCA 236, the Queensland Court of Appeal reversed the decision and found that the advances were loans the parties had intended to be repaid. The parents won – but only after years of litigation, the expense of taking the matter to the Court of Appeal, and a result that could easily have gone the other way.

BEFORE YOU GET STARTED

This Wealth Adviser publication is published by Wealth Today Pty Ltd (AFSL 340289), Sentry Advice Pty Ltd (AFSL 227748), Synchron Advice Pty Ltd (AFSL 243313) and Millennium3 Financial Services Pty Ltd (AFSL 244252) and contains general and factual information only.

Before acting on any information contained herein you should consider if it is suitable for you. You should also consider consulting a suitably qualified financial, tax and/or legal adviser.

Information in this document is no substitute for professional financial advice.

We encourage you to seek professional financial advice before making any investment or financial decisions.

In any circumstance, before investing in any financial product you should obtain and read a Product Disclosure Statement and consider whether it is appropriate for your objectives, situation and needs.

A loan agreement is a contract between the lender and the borrower setting out the terms on which money is advanced and the basis on which it is to be repaid. For a family loan, the substantive provisions are the same as for any other commercial loan

Most family lending never sees a courtroom. But the Berghan case is a useful frame for the article that follows, because it surfaces the question that comes up whenever family money moves from one generation to the next: is this a loan or a gift? The answer matters less when everything goes well than it does when something doesn't — when the adult child later separates, becomes bankrupt, dies, or simply stops paying. At those moments, what convinces a court, a trustee, or Centrelink that money advanced informally was a genuine loan rather than a disguised gift is the documentation — or the absence of it.

What a proper loan agreement actually does

A loan agreement is a contract between the lender and the borrower setting out the terms on which money is advanced and the basis on which it is to be repaid. For a family loan, the substantive provisions are the same as for any other commercial loan: identification of the parties, the amount advanced, the date of advance, whether and at what rate interest is charged, the repayment schedule (or a statement that the loan is repayable on demand), any security taken, the consequences of default, and the governing law. The document does not need to be elaborate, but it does need to be written, signed, and contemporaneous with the advance.

A promissory note is a narrower instrument — an unconditional written promise by the borrower to pay a specified sum to the lender on demand or at a specified time. It is shorter and simpler than a full loan agreement, and for smaller or shorter-term loans it can be a workable alternative. The substantive difference is that a loan agreement is a two-party contract setting out the full bargain between lender and borrower, while a promissory note is essentially an acknowledgement of debt by the borrower. For most situations where documentation actually matters — larger advances, longer terms, security, family-law exposure — the loan agreement is the more substantive vehicle, and the rest of this article focuses on it. A promissory note has its place as a lighter-touch instrument where the parties want a clear written record of a smaller debt without the machinery of a full agreement.

The features of a properly drafted family loan agreement tend to mirror those of a properly drafted commercial loan. Interest is the first. A loan agreement that provides for interest looks, on its face, like an arrangement the parties intended to be repaid. A zero-interest loan can still be a genuine loan — and is common in family contexts — but it removes one of the most useful indicators that the arrangement is commercial in character. Where interest is not charged, the rest of the document needs to do more work in establishing that the parties intended a legal obligation rather than a moral one.

Repayment terms are the second. A loan can be repayable in fixed instalments, in a lump sum on a specific date, or on demand. Each is defensible; the important point is that the document says which. Open-ended arrangements where the timing of repayment is unspecified and effectively at the borrower's discretion are the ones most vulnerable to being characterised as gifts. "On demand" loans in particular are useful for family contexts because they give the lender flexibility, but the lender needs to be aware that the limitation period for recovery can begin running from the date of advance rather than the date of demand — a point that has caught more than one parent out.

Security is the third. Most family loans are unsecured. Where the loan is substantial — for instance, where parents are advancing a deposit toward a child's home purchase — it is sometimes possible to register a second mortgage over the property to secure the advance. The first mortgagee (the bank) will need to consent, which is not always forthcoming. But where it can be arranged, it materially strengthens the parents' position: the loan becomes a secured debt rather than an unsecured one, which matters for both family law and bankruptcy purposes.

The fourth is the simple discipline of contemporaneous documentation. The single biggest reason informal family loans fail when tested is that the documentation either doesn't exist or was created retrospectively. A loan agreement drafted at the time of the advance, signed by both parties, kept by both parties, and reflected in bank records that describe the transfer as a loan is the basic baseline. Reconstructing it years later — particularly under the pressure of litigation — rarely persuades a court.

The third-party challenge — when an outsider tests whether it was really a loan

The case for documenting family loans properly does not rest on the parent-child relationship breaking down. It

rests on the fact that, at various points in the loan's life, an external party may need to be persuaded that the arrangement is a loan rather than a gift. Family law courts, bankruptcy trustees, and Services Australia all face this question from different angles. The same documentation discipline addresses all three.

Family law. When an adult child separates from a spouse or de facto partner, the matrimonial (or de facto) property pool is determined and divided under section 79 of the Family Law Act 1975 (Cth). An undocumented family loan is at significant risk of being treated as a gift to the couple – and therefore not deducted from the asset pool – rather than as a debt repayable from the pool before division. The leading authority is Biltoft and Biltoft (1995) FLC 92-614, in which the Full Court of the Family Court held that unsecured liabilities are generally deducted from the value of assets in calculating the property pool, but the court retains a discretion to exclude debts that are "vague or uncertain", "unlikely to be enforced", "unreasonably incurred", or "incurred after the separation". A family loan without contemporaneous documentation, without specified repayment terms, and without any history of demand or repayment can fall into the "vague or uncertain" or "unlikely to be enforced" categories – in which case the parent lender loses the protection of the loan as a deductible liability, and the spouse of the borrower benefits accordingly. The dollar effect can be substantial. On a property pool of $1 million with an undocumented $200,000 advance from the borrower's parents, the difference between treating the advance as a deductible debt and treating it as a gift to the couple can be $100,000 or more for each spouse.

A properly drafted loan agreement, signed at the time of advance, with specified repayment terms and ideally some history of partial repayment or interest payment, materially strengthens the case for treating the advance as a debt. It does not guarantee the outcome – the court still has discretion – but it shifts the evidentiary position significantly.

Bankruptcy. When an adult child enters bankruptcy, the trustee in bankruptcy is required to identify all creditors of the bankrupt estate and to receive proofs of debt from each. A parent who claims to be owed money by the bankrupt child must lodge a proof of debt with supporting evidence – and the bankruptcy legislation places the onus on the creditor to prove the debt. Informal family loans frequently fail at this point. Without a loan agreement, the parent must rely on bank statements, statutory declarations, and whatever contemporaneous correspondence exists. Where the evidence is thin, the trustee may reject the proof of debt entirely, or accept it at a discounted figure. The parent then loses any share of any dividend paid to unsecured creditors, and the money advanced is effectively gone. A documented loan with clear terms – and, ideally, a registered security – places the parent in a substantially stronger position as a creditor.

Centrelink. The third party that examines family transfers most systematically is Services Australia, through the means tests applied to the Age Pension and other income support payments. A gift from a parent to an adult child reduces the parent's assessable assets – but only within the gifting free area, which is $10,000 per financial year and $30,000 over a rolling five-year period. Amounts above those limits are treated as "deprived assets" and remain on the parent's assets-test record for five years from the date of the gift, with deeming rules also applying for the income test. A genuine loan, by contrast, is generally treated as an assessable financial asset of the lender, with any interest received counted as income. Neither treatment is automatically better than the other – the optimal position depends on the parent's overall pension situation – but the choice between them is only available where the arrangement is properly documented as a loan. An informal advance with no agreement and no expectation of repayment will be treated as a gift, with the deprivation consequences that flow from that. The detailed mechanics of the Age Pension means tests were covered in Issue 131.

What about forgiving the loan later?

Many family loans are made with at least the private hope that they will eventually be forgiven – perhaps as part of an inheritance, perhaps as the parents' circumstances change. A loan that is properly documented at the time of advance can still be forgiven later, and that forgiveness can be effected through a simple written deed of release or amendment to the loan agreement. The important point is that the forgiveness is itself a discrete act – it should be documented when it happens, not assumed to have happened in the absence of demand. A loan that has not been called on for many years is still legally a loan; it does not automatically become a gift merely because repayment has not been demanded.

Forgiveness also has its own consequences. From a Centrelink perspective, the amount forgiven is treated as a gift on the date of forgiveness, which triggers the gifting and deprivation rules afresh from that date. From a family-law perspective, a forgiveness that occurs after separation has been foreseen – particularly if it has the effect of removing a liability from the borrower's side of the property pool – may itself be vulnerable to challenge as a contrivance. The trade-offs need to be thought through at the time, ideally with advice, rather than left as an open question.

The estate planning dimension

For older lenders, a properly documented loan also matters for what happens at their own death. An undocumented

Where the lender intends the loan to be repaid into the estate, the agreement and the will should be consistent on that point. Inconsistency between the two is a frequent cause of family disputes after a parent's death, and the cost of those disputes — financial and otherwise — usually exceeds the cost of getting the documentation right at the outset.

advance to an adult child may be difficult for the executor to recover or even identify; the surviving family may dispute whether it was a loan or a gift in the first place. Where the lender intends the loan to be forgiven on death — sometimes equalised against other children's inheritances — the will should say so explicitly, with reference to the loan agreement. Where the lender intends the loan to be repaid into the estate, the agreement and the will should be consistent on that point. Inconsistency between the two is a frequent cause of family disputes after a parent's death, and the cost of those disputes — financial and otherwise — usually exceeds the cost of getting the documentation right at the outset.

Worth Thinking About

A few questions to bring to your next adviser conversation or family meeting.

- For any significant advance to an adult child, has the arrangement been documented in writing at the time of advance, or is it still operating on the basis of conversations and bank transfers?
- If interest is not charged, do the other terms of the agreement (repayment schedule, demand provisions, acknowledgement of debt) do enough work to establish the arrangement as a genuine loan?
- Where the loan is substantial — for instance, a deposit on a child's home purchase — has security been considered, and have you discussed with the first mortgagee whether a second mortgage in favour of the parents would be acceptable?
- For couples making the same advance to different children at different times, are the arrangements documented consistently, so that the question of equalisation can be addressed cleanly when it eventually arises?
- If you are receiving an Age Pension or close to claiming, have you considered how the arrangement is most usefully characterised under the means tests — as a loan (asset, deemed income) or as a gift (deprivation rules)?
- Does your will reflect the existence of any outstanding loans to children and specify what happens to them on your death?

References

- *Berghan & Anor v Berghan [2017] QCA 236.*
- *Biltoft and Biltoft (1995) FLC 92-614.*
- *Family Law Act 1975 (Cth), section 79.*
- *Bankruptcy Act 1966 (Cth), particularly Part IV (provable debts and proof of debt requirements).*
- *Australian Financial Security Authority (AFSA), Treatment of debts in bankruptcy — Official Trustee Practice Statement 8.*
- *Services Australia, Gifting (gifting free area and deprivation rules).*
- *Federal Circuit and Family Court of Australia, Financial or property — Bankruptcy in family law practice guidance.*

depositphotos.com

THE HOME YOU'RE SITTING ON

Reverse Mortgages and the Government Scheme Almost No One Knows About

BY WEALTH ADVISER

Margaret and David are 72 and 70. They own a debt-free home in a Sydney suburb that recently valued at $1.4 million. Between them they have $380,000 in superannuation, drawing an account-based pension that provides roughly $22,000 a year on top of their part Age Pension. Together the pension and the super cover their living expenses comfortably enough – but only just. The house needs a new roof, David's hip will eventually need replacing, and they would like, before too much longer, to spend a serious amount of time travelling.

On paper, Margaret and David are wealthy. In practice, almost all that wealth is locked inside the front door, and a great many Australians in their position face the same arithmetic: a paid-off home worth seven figures, retirement savings worth a small fraction of that, and a standard of living constrained by the gap. Until quite recently, the dominant view in Australian financial advice was that the home was sacrosanct – you preserved it, bequeathed it, and didn't draw against it unless you had no other option. That view has shifted. Longer retirements, rising care costs, and an evolving product market have made converting some home equity into retirement income a legitimate planning lever rather than a last resort. Two products in particular do this work, and most readers will only have heard of one of them.

Two products, two very different propositions

Commercial reverse mortgages are loans secured against the home, with no required repayments while the borrower lives there. Interest compounds on the balance. The debt is repaid when the home is sold, when the borrower moves permanently into aged care, or from the estate after death. The loan amount is capped by a loan-to-value ratio that increases with the borrower's age – starting at roughly 15 to 20 per cent of the home's value at age 60 and rising by about one per cent per year, reaching around 35 per cent at age 80 and up to around 50 per cent for those in their nineties. For couples, the youngest borrower's age sets the limit.

The main commercial lenders in Australia are a small group: Heartland Bank, Household Capital, and a handful of smaller players including P&N Bank, Gateway Bank, Unity

> **HEAS works differently from a commercial reverse mortgage in three important respects. As at May 2026, the interest rate is 3.95 per cent per annum, compounding fortnightly, and has been unchanged since January 2022.**

Bank, and G&C Mutual Bank. Variable interest rates quoted in early 2026 were broadly between 8.25 and 9.5 per cent, with establishment fees typically in the range of $950 to $2,500 once legal and valuation costs are included.

The Home Equity Access Scheme — HEAS — is the federal government's reverse mortgage product, administered by Services Australia. It was previously called the Pension Loans Scheme, was substantially expanded and rebranded on 1 July 2022, and has remained almost invisible to the general public ever since. According to government data cited by UNSW and The Conversation in April 2026, only around 18,700 people were participating, drawing on what Deloitte and other researchers estimate is roughly $3 trillion in housing wealth held by Australians aged 60 and over.

HEAS works differently from a commercial reverse mortgage in three important respects. As at May 2026, the interest rate is 3.95 per cent per annum, compounding fortnightly, and has been unchanged since January 2022. The total combined payment — the Age Pension (if any) plus the HEAS loan payment — is capped at 150 per cent of the maximum Age Pension rate. And the standard delivery is a fortnightly income stream, although since 2022 it has also been possible to take limited lump-sum advances, capped at 50 per cent of the annual maximum pension rate in any 26-fortnight period. You don't need to be receiving the Age Pension to use HEAS — self-funded retirees of Age Pension age (currently 67) can access it on the same terms.

What the two products share

Both products are loans, not income, for tax purposes. Neither requires regular repayments while the borrower remains in the home, but both allow voluntary repayments at any time without penalty — a feature most readers don't realise exists, and one that can substantially slow the compounding for borrowers in a position to make occasional payments. Both can be drawn as a regular income stream, a lump sum, or some combination, although HEAS limits the lump-sum option more tightly. Both compound interest on the outstanding balance until repaid.

Both also carry a no-negative-equity guarantee, which is the single most important consumer protection in this part of the market. Since 2012, under the National Consumer Credit Protection Act, the borrower or their estate can never owe more than the home is worth when it is sold. If the loan balance has grown beyond the sale value of the property, the lender must absorb the shortfall. HEAS includes equivalent no-negative-equity protections under its own statutory framework.

Both products include occupancy protection — borrowers generally retain the right to remain in the home for life, provided they continue meeting the loan conditions (maintaining the property, paying the rates, keeping it insured, and not otherwise breaching the contract). Surviving-spouse protection is now standard: where both partners are co-borrowers, the loan typically becomes repayable only when the last surviving borrower permanently leaves the home, dies, or breaches a key loan condition.

Where the two products diverge sharply

The interest rate gap is the most obvious difference. At 3.95 per cent versus 8 to 9 per cent, HEAS is substantially cheaper. Over a decade, a $100,000 loan compounding at 3.95 per cent grows to around $148,000; the same loan at 8.7 per cent grows to around $231,000. That difference of roughly $83,000 over ten years is real equity that either stays with the borrower's estate or is lost to interest.

The borrowing limits also differ. HEAS caps the income stream at 150 per cent of the maximum Age Pension rate — a combined ceiling of around $46,800 a year for a single retiree in 2026 and around $70,600 for a couple. Lump sums under HEAS are capped at 50 per cent of the annual maximum pension rate. Commercial reverse mortgages have no equivalent ceiling beyond the age-based LVR limits — a 75-year-old with a $1.4 million home might access $400,000 or more, structured as a lump sum, a cash reserve facility, or staged drawdowns.

The Centrelink treatment differs in ways that matter. HEAS payments — both fortnightly payments and lump-sum advances — are specifically exempt from the income test under the social security legislation. They are loan proceeds, not income, and they don't reduce the Age Pension. Commercial reverse mortgage drawdowns are generally not assessed as income when received, but unspent amounts held in financial assets become subject to deeming and the assets test soon afterwards. We come back to this below.

Eligibility is broader for commercial products in one direction and narrower in another. Heartland Bank lends to borrowers from age 55; most other commercial lenders start at 60. HEAS requires Age Pension age (currently 67). At the other end, commercial products are typically only offered against owner-occupied homes in established

areas, with minimum property values around $200,000 and exclusions for retirement villages, leasehold properties, and remote locations. HEAS can be secured against a broader range of Australian real estate — including some investment and non-owner-occupied property — subject to Services Australia's eligibility requirements.

On flexibility, HEAS lets a borrower start, stop, or adjust fortnightly payments at any time without penalty, while most commercial lenders offer staged advances and cash reserve facilities — a borrower can be approved for, say, $250,000 in total facility, take $40,000 immediately, and leave $210,000 as a reserve to draw later (interest only accruing on what's drawn).

When the decision tilts toward HEAS

For Margaret and David — a couple looking for a modest top-up to their income, with no immediate need for a large capital sum — HEAS is almost certainly the right answer if it's available. The interest rate alone makes it the lower-cost option by a wide margin, the income-test exemption protects their part pension, and the application can be done through MyGov and Services Australia without the broker and lender machinery commercial products require.

HEAS makes the strongest case in three situations. First, where the borrower wants regular, modest supplementary income rather than a large capital sum — the 150 per cent ceiling is generous for income-stream purposes and restrictive for major capital needs. Second, where the borrower is a part pensioner whose pension would be affected by holding large amounts of cash from a commercial product. Third, where the borrower wants the option to start small, see how it feels, and adjust.

When the decision tilts toward a commercial reverse mortgage

Commercial products fit where HEAS doesn't. For a homeowner who needs a substantial lump sum — to pay a refundable accommodation deposit for an aged-care entry, to renovate the home for accessibility, to discharge a remaining mortgage at retirement, or to assist an adult child with a major need — HEAS won't deliver the amount required. A commercial product is the practical option, even at the higher interest rate, because the amount needed simply isn't available through the government scheme. Commercial products are also the only option for those under Age Pension age — Heartland Bank in particular extends to borrowers from 55. And where the borrower wants a cash reserve facility to draw against unpredictably, paying interest only on what's drawn, the structure isn't something HEAS quite replicates.

It is also possible to hold both products simultaneously — HEAS for ongoing income, a commercial reverse mortgage for a one-off capital event — though the commercial lender will assess available equity net of any existing HEAS balance.

The case against drawing home equity at all

A properly two-sided picture of these products requires sitting honestly with the case against. There is one, and it is real.

The first and most concrete concern is compounding interest. A reverse mortgage is the only common form of household borrowing where interest accumulates without any pressure to repay. Over a long retirement, that compounding can be substantial. At 3.95 per cent, a balance doubles roughly every 18 years; at 8.7 per cent, every eight years. A 65-year-old who draws $150,000 from a commercial reverse mortgage may find the loan balance has grown to more than $500,000 by their mid-eighties if no voluntary repayments are made.

The implication runs in two directions. For the borrower, it means less home equity available later — and "later" in a retirement context often means aged-care entry, where a refundable accommodation deposit can run into many hundreds of thousands of dollars. Drawing too much equity too early can box the borrower out of options they didn't anticipate needing. For the estate, it means a reduced inheritance. The no-negative-equity guarantee protects against complete erosion but doesn't reverse what's been spent and paid in interest.

The second concern is the interaction with aged care. When a person enters residential aged care, the family home receives a particular Centrelink and aged-care means-test treatment that depends on whether a protected person — a spouse, certain dependents, or a long-term carer — still lives in it. The presence of a reverse mortgage doesn't change this directly, but it does change the equation when the home is sold to fund a refundable accommodation deposit: the loan must be repaid from the sale proceeds before the RAD can be funded, which can leave less capital available than the sale price suggests. We covered the RAD and aged-care financing in detail in Issue 129; the point here is that a reverse mortgage taken in earlier retirement can constrain aged-care options later.

The third concern is bequest preferences. For many older Australians, leaving the home or its value to children or grandchildren is a meaningful goal, and drawing equity during retirement reduces that inheritance directly. This is not a reason to refuse the product — most adult children would rather their parents lived comfortably than scrimped to preserve a bequest — but it is a conversation to have explicitly, ideally with the family included, rather than to bury.

The framework for thinking about it

The question is rarely whether reverse mortgages are

good or bad in the abstract. It is whether extracting some home equity makes sense given a household's specific assets, longevity, care plans, bequest preferences, and the alternatives available.

The alternatives matter. Downsizing releases home equity without compounding interest but brings transaction costs (typically 5 to 7 per cent of the home's value) and requires the homeowner to actually want to move, which many don't. Drawing super faster gets to the same liquidity outcome but accelerates the depletion of a finite balance. Working longer is another lever, with diminishing returns. Reverse mortgages — including HEAS — sit alongside these alternatives rather than competing with them. For a homeowner whose home is worth four or five times their liquid retirement assets, who values staying in the home, and who can identify the specific purpose the additional income or capital is meant to serve, drawing some home equity is now a legitimate planning option. The traditional view that the home must be preserved at all costs deserves reconsideration in light of longer retirements and changing retirement balance sheets.

Where the traditional view still holds force is at the extremes — for a homeowner with modest home equity (say, under $500,000) where compounding bites harder and the buffer for unexpected aged-care costs is thinner; for a homeowner with strong inheritance intentions and a family that depends on the bequest; and for a homeowner whose liquid retirement assets would, if carefully drawn down, cover their needs without touching the home at all.

The Centrelink interaction matters for part pensioners in particular. HEAS payments leave the income test untouched, while commercial reverse mortgage proceeds held as cash will eventually affect the assets test through deeming. Funds spent on the home itself (renovations, accessibility modifications) reduce assessable assets directly, because the home is exempt. The means-test logic itself is covered in Issue 131; the point here is that for a part pensioner near a threshold, how the money is received and what it's used for are pension-eligibility questions, not just budget questions.

For Margaret and David, the planning conversation would probably start at the modest, HEAS-shaped end of the spectrum: a fortnightly top-up of $400 or $500, with a small lump-sum advance for the roof, closing their immediate income gap and funding the most pressing capital need without committing to a large loan balance that compounds for decades. If the larger capital events materialise later, a commercial facility can be revisited then.

Worth Thinking About

A few questions to bring to your next adviser conversation.

- What is the gap between your liquid retirement assets and your home equity, and is it large enough that drawing some home equity would meaningfully change your lifestyle?
- Which need is home equity being considered for — supplementary income, a one-off capital event, a renovation, an aged-care entry — and how soon is that need likely to come up?
- For a couple, are you both on the title, and would the proposed arrangement leave the surviving spouse appropriately protected?
- Have you considered HEAS specifically, and do you understand the income and lump-sum limits well enough to know whether it would meet your purpose?
- If you are a part pensioner, have you modelled how the proposed drawdown structure would interact with the income and assets tests over time?
- Have you discussed the implications for any planned inheritance with the family members involved, openly rather than in passing?

References

- *Services Australia, Home Equity Access Scheme, page last updated September 2025.*
- *Services Australia, Interest rate for loans under the Home Equity Access Scheme, 2026.*
- *Department of Social Services, Home Equity Access Scheme overview, current as at 2026.*
- *National Consumer Credit Protection Act 2009 (Cth) — Schedule 2 (reverse mortgage provisions, in force from 1 July 2012).*
- *ASIC MoneySmart, Reverse mortgage and home equity release.*
- *Department of Veterans' Affairs, Home Equity Access Scheme, updated March 2026.*
- *UNSW Newsroom / The Conversation, "This little-known government scheme can help retirees tap into $3 trillion of housing wealth", April 2026.*

depositphotos.com

WORKING PAST 65

How Tax, Super, and Centrelink Now Fit Together

BY WEALTH ADVISER

The number of Australians working past their Age Pension age has been rising for two decades, and the trend is unlikely to slow. Some people are working past 65 by choice – consulting, board work, a business they enjoy too much to leave, a part-time arrangement that gives the week structure. Some are working out of necessity – a super balance that hasn't done the job, a mortgage that's lingered, a need to support adult children. Many are somewhere in between, working not because they have to but because retiring entirely doesn't appeal, at least not yet.

The article that follows applies to all three groups. The tax, super, and Centrelink rules that govern working past Age Pension age are the same regardless of why a person is working, even though the strategic implications of those rules depend heavily on the person's reasons and circumstances.

It's also worth saying at the outset that the rule framework has shifted substantially over the past few years. Several long-standing restrictions on older Australians' financial decisions have been wound back. The work test has been partially removed. The work bonus has been made more generous. The age limit on Superannuation Guarantee was abolished some years ago. The downsizer contribution age has been progressively lowered. Older guidance circulating in the financial press, in forums, or from well-meaning relatives may not reflect the current position. The article notes the most consequential changes as they come up, but the broader point is that the framework has been catching up with the reality that many Australians no longer retire at the moment they become eligible to.

The work bonus and the income test

For Australians of Age Pension age who are still working, the single most consequential rule is the Centrelink work bonus. It is also one of the least well understood, even by people receiving it.

Under the work bonus, the first $300 a fortnight of employment income an eligible Age Pensioner earns is simply disregarded under the income test. It is excluded from the assessment entirely – set aside before the income test starts running.

If the person earns less than $300 in a fortnight – or doesn't work at all that fortnight – the unused portion of the $300 accrues in a work bonus "income bank" up to a maximum balance of $11,800. The balance can then be used in future fortnights when employment income is higher.

This is what makes the work bonus work for seasonal or irregular employment: a retiree who does no paid work for ten fortnights and then earns $3,000 in a single fortnight can apply $3,000 of accrued credit against that earnings, with nothing flowing through to the income test.

New Age Pensioners now also receive a one-off $4,000 starting credit when they first become eligible for the pension, which was made permanent in 2024 after originally being introduced as a temporary measure. The credit is added to the work bonus balance from the date of grant.

Beyond the work bonus, the standard Age Pension income test applies. The income-free area is currently $218 a fortnight for singles and $380 a fortnight for couples combined. Above those thresholds, the pension reduces by 50 cents in the dollar for singles, or 25 cents in the dollar for each member of a couple. Once income reaches the upper cut-off — around $2,620 a fortnight for singles or $4,001 a fortnight combined for couples — the pension cuts out entirely.

Put together, the work bonus and the income-free area mean that an Age Pensioner can earn around $518 a fortnight (around $13,500 a year) from employment before any of it affects their pension, leaving aside any other income they might have. A working couple of pensioners can earn meaningfully more again, particularly if both partners are working. For seasonal earnings, where the work bonus accrual is used in fewer fortnights, the effective tax-free zone is substantially higher.

It also matters that the work bonus only applies to employment income — wages, salary, or income from gainful self-employment involving personal exertion. Income from investments, rental property, or super pensions is not eligible. For self-employed pensioners, the share of business income attributable to personal exertion is recorded with Centrelink as a percentage of business profits; the figure needs to be set correctly when the claim is made, because misclassified records can mean the work bonus isn't applied at all, sometimes for years.

Tax: SAPTO, the rate cut, and the interaction with super income

The tax position for working pensioners and self-funded retirees over Age Pension age has two distinctive features: the Seniors and Pensioners Tax Offset (SAPTO), and the income tax rate change taking effect on 1 July 2026.

SAPTO is a non-refundable tax offset specifically for Australians of Age Pension age who either receive a qualifying government payment or would qualify for the Age Pension but for the means tests. It is one of the more useful and least understood tax provisions affecting retirees. For 2024-25 (the most recent year for which final thresholds are confirmed), the maximum offset is $2,230 for an eligible single, or $1,602 for each member of an eligible couple ($3,204 combined). Eligibility is based on rebate income — broadly, taxable income plus reportable employer super contributions, deductible personal super contributions, certain investment losses, and adjusted fringe benefits. For 2024-25 the rebate income shade-out thresholds are $34,919 (single) and $30,994 each (partnered), with cut-outs of $52,759 (single) and $43,810 each (partnered). These thresholds are typically uprated through annual indexation, with the 2025-26 and 2026-27 figures confirmed by the ATO as the relevant year approaches.

Combined with the tax-free threshold and the Low Income Tax Offset, SAPTO can lift the effective no-tax threshold for a single eligible senior from $18,200 to approximately $33,886 (rising slightly under indexation). For couples where both qualify, each partner can earn roughly $31,888 before income tax becomes payable. This is the key reason why a self-funded retiree working part-time can often have a meaningful employment income with very modest tax payable, particularly where their super drawdowns are themselves tax-free (the standard position for super pension income from a taxed source after 60).

The 1 July 2026 tax rate change is the second instalment of the cuts introduced in July 2024. The marginal rate on income between $18,201 and $45,000 drops from 16 per cent to 15 per cent, worth up to $268 a year for taxpayers earning above $45,000. The cut applies to all working Australians, including those over Age Pension age, but stacks usefully with SAPTO for seniors whose rebate income falls within the lower marginal band. For a senior who, after SAPTO, falls precisely into the 15 per cent band on a modest portion of employment income, the rate change is worth a small but meaningful amount. (A further cut to 14 per cent is legislated from 1 July 2027.)

One technical point matters for retirees drawing super pensions. For most retirees aged 60 or over receiving a standard taxed super income stream, the pension payments are tax-free and generally do not count toward taxable income or SAPTO rebate income. Rebate income for SAPTO purposes is taxable income plus reportable employer super contributions, deductible personal super contributions, net investment loss, and adjusted fringe benefits — none of which is the same thing as ordinary pension drawdowns from a taxed super source. Exceptions can apply: certain untaxed super pensions (most commonly from older public-sector schemes) do flow into taxable income and can therefore affect SAPTO. If you are unsure which type of pension you receive, the fund's annual statement will identify it.

Super: what changed in 2022, and what didn't

Super contribution rules for people aged 67 to 74 changed materially on 1 July 2022. Before that date, anyone

Contributing to super while drawing a pension from it is a separate question and one that catches some people out. There is no rule against it — a person can run an account-based pension from one part of their super while making contributions into another — but the contributions are made into accumulation phase, not into the pension itself.

in that age band who wanted to make a voluntary super contribution had to satisfy the work test — they had to have worked at least 40 hours within 30 consecutive days in the financial year. After 1 July 2022, the work test was removed for non-concessional contributions and salary sacrifice contributions. It still applies, however, for personal deductible contributions — that is, after-tax contributions the individual then claims a tax deduction for. The 40-hours-in-30-consecutive-days test must be met in the income year in which the contribution is made.

The practical effect is a useful flexibility for people in their late 60s and early 70s who are no longer working but who have surplus cash to top up super. They can make non-concessional contributions (up to $120,000 a year, or up to $360,000 over three years using the bring-forward rule, subject to their total super balance being below the relevant threshold) without working at all. They cannot, however, claim a deduction for a personal contribution without meeting the work test.

The Superannuation Guarantee position is now also straightforward. The age limit on SG was abolished in 2013, so employers must pay SG for eligible workers of any age. The SG rate reached its final legislated rate of 12 per cent on 1 July 2025 and remains there permanently — there are no further scheduled increases. From 1 July 2026, payday super applies, meaning employers must remit SG at the same time as each pay run rather than quarterly, which is covered in detail in Issues 132 and 134. For an older worker, the practical implication is that SG continues to accumulate in their super balance as long as they remain employed, which can be a useful tax-effective channel for additional savings even where retirement income is already drawn from a separate pension account.

Carry-forward concessional contributions are particularly relevant for many older workers. Someone who has been under the annual concessional cap in earlier years — usually because they were on a lower income, on parental leave, or contributing modestly — can accumulate up to five years of unused cap to use in a later year, provided their total super balance is below $500,000 on 30 June of the preceding year. For a worker in their late 60s or early 70s who has come into a windfall, sold a business, or simply has surplus cash from an inheritance or asset sale, carry-forward can support a large concessional contribution that would otherwise breach the cap. The strategy is one of the more valuable planning levers in this age band for those who qualify.

Contributing to super while drawing a pension from it is a separate question and one that catches some people out. There is no rule against it — a person can run an account-based pension from one part of their super while making contributions into another — but the contributions are made into accumulation phase, not into the pension itself. This means the contributed funds aren't part of the pension drawdown amount and aren't subject to the transfer balance cap until or unless they're later commuted into pension phase. For working pensioners receiving SG, this is mechanically how the SG enters their super while they're also drawing down on the pre-existing pension.

A brief cross-reference: the contribution caps, the carry-forward rule, the downsizer contribution (now available from age 55), and the Division 296 tax (which applies from 1 July 2026 to balances over $3 million) were all covered in detail in Issues 131, 132, and 134.

Strategic considerations to bring to the adviser

The mechanics above describe the rules. The strategic questions that emerge from them are personal — they depend on assets, expected work duration, bequest preferences, and the specific timing of major life events. The article cannot answer those questions for any individual reader, and shouldn't try. What it can do is name the questions worth raising.

The first is the timing of any Age Pension claim. For someone working past 67, the temptation can be to delay claiming the pension until employment income drops, on the assumption that the pension and the income test will eat each other. That intuition is often partly wrong. Claiming the pension at 67 — even where the payment is initially quite small — starts the work bonus clock running, which builds up the income bank for use in future years when employment may be more sporadic. Even a modest pension entitlement can provide access to supplement payments and the Pensioner Concession Card, with its attached concessions on PBS prescriptions, council rates, public transport, and other state-based benefits. For most people working past 67, claiming early is the more useful default, but the right answer depends on the specific income and asset position.

The second question is the choice between drawing more

from super versus working more. For a part-pensioner who is still earning meaningful employment income, the marginal value of an extra fortnight of work is partly determined by the work bonus accrual and the income-test taper. Where the work bonus credit is already accruing and the income test is the binding constraint, drawing additional super pension rather than working an extra shift can sometimes preserve more household income. The mechanism here is that, for people of Age Pension age, super pension withdrawals from a taxed source aren't assessed under the income test, while employment income is (subject to the work bonus). Where the assets test is the binding constraint, the trade-off runs the other way. The deeming rate change that took effect on 20 March 2026 — the lower rate now 1.25 per cent and the upper rate 3.25 per cent, after several years of being frozen at lower levels — has tightened the income-test position for part-pensioners with sizeable financial assets, which is worth modelling rather than assuming.

The third question is whether to make voluntary super contributions while still working past 65. The case for is strongest where the worker has carry-forward concessional cap available, is in a marginal income tax band well above 15 per cent, and has time before contributions become inaccessible (for most people in this age group, super is already unrestricted and accessible, so this is more about tax-effective accumulation than locked-up money). The case against is where the contribution would breach a cap, push the worker through the Division 293 income threshold ($250,000), or come at the cost of household liquidity that's needed for other purposes.

The fourth question is the Commonwealth Seniors Health Card. For someone who is over Age Pension age but not eligible for the Age Pension because of the means tests — typically self-funded retirees with substantial assets or higher income — the CSHC is the consolation prize, providing access to concessional PBS prescriptions and some state-based concessions without the asset-test friction of the Age Pension itself. The income test for the CSHC includes deemed income from financial assets including super in pension phase. Where employment income and the CSHC are both in play, the modelling is worth doing carefully, because the CSHC income threshold is much higher than the Age Pension threshold but the CSHC itself is a yes/no eligibility test rather than a tapered amount.

Worth Thinking About

A few questions to raise at your next adviser review.

- If you're working past 67 and not yet claiming the Age Pension, have you modelled what changes when you claim — including the work bonus accrual, the supplement components, and the Pensioner Concession Card?
- Is the percentage of your business income recorded by Centrelink as personal exertion correctly set, if you're self-employed?
- Have you reviewed whether SAPTO is being correctly applied to your tax return, and (if you receive a super pension) whether it is from a taxed or untaxed source?
- If you have available carry-forward concessional contribution cap, would a contribution this year be valuable given your marginal tax rate and your liquidity position?
- Where the assets test is binding on your part Age Pension, have you considered how the March 2026 deeming rate rise affects your fortnightly payment?
- For self-funded retirees over Age Pension age, have you checked whether you qualify for the Commonwealth Seniors Health Card given your current income?

References

- *Services Australia, Work Bonus, 2026.*
- *Services Australia, Deeming, page last updated 20 March 2026.*
- *Australian Taxation Office, Seniors and pensioners tax offset (SAPTO), 2024–25 thresholds.*
- *Australian Taxation Office, Restrictions on voluntary contributions (work test current position).*
- *Australian Taxation Office, Super guarantee — rate, payday super and contribution base.*
- *Department of Social Services Ministers' release, Changes to social security payments from 20 March 2026.*
- *Treasury Laws Amendment (Enhancing Superannuation Outcomes for Australians and Helping Australian Businesses Invest) Act 2022 — work test changes.*

Q&A: Ask a Question

Question 1

My home is worth far more than my super, but I don't want to sell. I've heard about reverse mortgages – is there a government version, and how does it compare?

Yes, there is. The Home Equity Access Scheme (HEAS) is the federal government's reverse mortgage product, administered by Services Australia. It allows eligible Australians of Age Pension age to borrow against the equity in their home, typically as a fortnightly income stream, with the loan repaid when the home is eventually sold or from the estate.

The most striking difference between HEAS and commercial reverse mortgages is the interest rate. HEAS currently charges 3.95% per annum, compounding fortnightly – substantially lower than the 8% to 9% range typical of commercial lenders in early 2026. Over a decade, that gap can preserve tens of thousands of dollars of home equity. HEAS payments are also exempt from the Centrelink income test, which protects part pension entitlements.

Commercial products allow larger amounts to be borrowed and offer more flexible lump-sum and cash reserve structures, which can suit homeowners needing significant capital – for example, to fund an aged care entry. Both products carry a no-negative-equity guarantee, meaning you can never owe more than the home is worth when sold.

Choosing between them depends on whether you need ongoing income, a one-off lump sum, or both, and how the interest compounding affects your longer-term position. A conversation with your adviser can help you weigh up the options.

Question 2

We're planning to lend our daughter some money toward her first home. Do we really need a formal loan agreement, or is a handshake enough?

A written loan agreement is strongly recommended, even between family members. The reason is not that you expect things to go wrong with your daughter, but that other parties may later need to determine whether the money was a loan or a gift – and without contemporaneous documentation, the default treatment may not be what you intended.

Three situations make this matter. If your daughter were to separate from a partner, family law courts assess whether undocumented family advances are deductible debts or effectively gifts to the couple. Without clear documentation, the advance may not be treated as a genuine debt of the couple, reducing the amount effectively returned to you. If she were to enter bankruptcy, a trustee requires evidence to accept your claim as a creditor. And under Centrelink rules, an undocumented transfer can be treated as a gift, triggering the gifting and deprivation provisions, rather than as an assessable loan asset.

A proper agreement should be in writing, signed by both parties at the time of advance, and identify the amount, repayment terms (including whether interest applies), and what happens on default. For substantial amounts, registering a second mortgage can also be considered. Your adviser can work alongside a solicitor to ensure the structure suits your broader financial and estate planning position.

Question 3

I'm over Age Pension age, still doing some consulting work, and someone mentioned the SAPTO. How does it actually change how much tax I pay?

The Seniors and Pensioners Tax Offset (SAPTO) is a non-refundable tax offset available to Australians of Age Pension age who either receive a qualifying government payment or would qualify but for the means tests. It works alongside the tax-free threshold and the Low Income Tax Offset to lift the effective amount of income you can earn before any income tax is payable.

For 2024-25 – the most recent year with confirmed thresholds – the maximum offset is $2,230 for an eligible single, or $1,602 for each member of an eligible couple. Eligibility is assessed against "rebate income", which is broadly your taxable income plus certain other amounts such as reportable employer super contributions and deductible personal super contributions. Combined with the tax-free threshold and LITO, SAPTO can lift the effective no-tax point for a single eligible senior to around $33,886, and to roughly $31,888 each for an eligible couple.

For most retirees aged 60 or over, ordinary super pension drawdowns from a taxed source are tax-free and don't count toward rebate income, which means employment income can often be earned with very modest tax payable. Older public-sector "untaxed" pensions are an exception. Reviewing whether SAPTO is being correctly applied to your return – and how it stacks with your other income – is worth a conversation with your adviser or tax agent.

With all these topics, there is no single "right" choice. Your personal situation matters, and you should seek advice from a licensed financial adviser to understand what is most appropriate for you.