

Granny flats



A granny flat is usually thought of as a self-contained unit within or attached to another home, often with the intent that the resident will be close to family who can help if required. However, for social security purposes, a granny flat can include other living arrangements.

Which homes can be granny flats?

Although Centrelink recognises that granny flats are usually family arrangements to provide company and nearby help and support for older people, this is not required for a living arrangement to be considered a granny flat for social security purposes.

Whether you live alone, with the owner, or in a separate self-contained dwelling on someone else's property, your home will meet the granny flat requirements and can be assessed under special rules if:

- it is all or part of any private residence
- it is not owned by you, your partner, or an entity (trust or company) that you control, **and**
- you have established a **granny flat interest**.

What is a granny flat interest?

You establish a granny flat interest when you exchange assets or money for a right to reside in someone else's property for as long as you live.

There are two ways to have a **lifetime right** to reside in a property that you do not own. A **life tenancy** just gives you the right to live in the property, whereas a **life interest** gives you the right to use and benefit from the property as you wish. Both methods meet the requirement of a granny flat provided you are living there.

Your life tenancy or interest cannot be extinguished just because the owner wishes to sell the property.

They may:

- sell the property with your life tenancy or interest as a condition of sale
- transfer your life tenancy or interest to another property, **or**
- compensate you financially for losing your granny flat interest.

You should check with Centrelink to see if any of these actions would reduce your payment.

Although Centrelink may accept that you have a granny flat interest, even if it is not in writing, we recommend that you have a legal document drawn up by a solicitor to give evidence of a life tenancy or interest. This should help to prevent any problems in the future if your personal circumstances change. The document should

- confirm you have security of tenure, **and**
- state whether you are liable for any upkeep of the property or payment of rent.

Note: your right only exists during your lifetime, and therefore your home is not part of your estate.

How does Centrelink assess your granny flat interest?

You can transfer any assets to the owner of the property in exchange for the life tenancy or interest. For example:

- you can transfer the ownership of your home but keep a lifetime right to live there (or in another private home owned by someone else)
- you can transfer some of your other assets (money for example) for a lifetime right to live in a property owned by someone else.



Centrelink needs to know what you transferred to the property owner in exchange for a granny flat right in order to:

- see if you paid too much (that is, whether you deprived yourself of assets), **and**
- assess whether you are a homeowner or a non-homeowner, thereby determining which assets test threshold applies, and whether you may be entitled to Rent Assistance.

Did you pay a reasonable amount?

Centrelink will only determine that you have deprived yourself of assets if you transfer more than the value of the granny flat right.

Because granny flats and granny flat interests are not usually sold, Centrelink does not use a market value to assess their worth. Instead, your granny flat is said to be worth the value of the assets you transferred or paid if:

- you transfer the title of the home you live in to someone else **and** keep a lifetime right to live in that

home or in another home (provided your home was or would have been totally exempt from the asset test)

- you pay what it costs to build a granny flat on someone else's property, or convert someone else's property to suit your needs and establish a lifetime right to reside there, **or**
- you buy a property in someone else's name and establish a lifetime right to reside there.

Provided you pay in one of these ways, and do not transfer additional assets as well, no deprivation will occur.

However, where you transfer assets in addition to the above (including a home property, part of which was or would have been assessable), Centrelink applies a test of reasonableness. The **reasonableness test amount** is the combined partnered rate of annual pension (regardless of whether you are single or partnered) multiplied by an age-related factor. If you are a member of a couple, the age of the younger partner is used. The combined married rate of pension at 1 July 2009 was \$26 338.

Age-related factor

Age	Factor	Age	Factor	Age	Factor	Age	Factor	Age	Factor
51	32.45	61	23.55	71	15.58	81	9.11	91	5.03
52	31.53	62	22.70	72	14.85	82	8.57	92	4.78
53	30.62	63	21.87	73	14.14	83	8.06	93	4.55
54	29.71	64	21.04	74	13.44	84	7.58	94	4.34
55	28.81	65	20.23	75	12.77	85	7.12	95	4.15
56	27.91	66	19.42	76	12.11	86	6.69	96	3.97
57	27.02	67	18.63	77	11.47	87	6.30	97	3.8
58	26.14	68	17.85	78	10.85	88	5.94	98	3.65
59	25.27	69	17.07	79	10.25	89	5.61	99	3.51
60	24.40	70	16.32	80	9.67	90	5.30	100 +	3.37

The value of the granny flat interest is the greater of the value of the home you transferred, the value of the property you bought for someone else, **or** the amount it cost to convert another property, **and** the **reasonableness test amount**.

If the amount of money or value of your property exchanged is more than the value of the granny flat interest, the excess is considered to be a "deprived asset", and this could affect the amount of pension you are paid.

Example

Malcolm (who turns 84 next birthday) and Irene (who turns 77 next birthday) purchased a granny flat right by transferring their \$270 000 home plus \$50 000 cash. The value of the interest is the reasonable test amount (\$302 097, being \$26 338 x 11.47 as it is greater than the value of the home). Malcolm and Irene have deprived themselves of \$17 903, that is, \$320 000 less \$302 097.

Will you be assessed as a homeowner?

Although you do not own the property in which you have a granny flat right, Centrelink may still assess you as a homeowner for social security purposes. Your homeowner status determines:

- if the amount you paid is considered an asset
- which assets test threshold is applied to your assets before they affect your rate of payment, **and**
- whether you may be entitled to Rent Assistance.

A non-homeowner has a higher assets test threshold than a homeowner. The difference between the thresholds is called the “extra allowable amount” and from 1 July 2009 it was \$129 000.

This amount is compared to your **entry contribution**. If you were not assessed under the reasonableness test, your entry contribution is the amount you actually paid. If you were assessed under the reasonableness test, your entry contribution is:

- the value of the granny flat interest, if you were assessed as paying more than your reasonableness test amount, **or**
- the amount you actually paid if you were assessed as paying less than your reasonableness test amount.

This table shows how your entry contribution affects your entitlement:

Entry contribution is:	More than extra allowable amount	Equal to or less than extra allowable amount
Considered as homeowner?	Yes	No
Contribution included in Assets test?	No	Yes
Eligible for Rent Assistance?	No	Yes, if you pay enough rent

In the previous example, Malcolm and Irene were assessed as paying more than their reasonableness test amount so their entry contribution is the value of the granny flat interest, that is, \$283 846. This is more than the extra allowable amount of \$129 000, so they are homeowners and no Rent Assistance is payable. However their contribution will not be included in their assessable assets.

What happens if I leave the home in which I have a granny flat interest?

If you stop living in the home within five years, Centrelink will review the granny flat interest. If the reason for leaving could have been anticipated at the time the interest was created, the deprivation rules will apply.

The deprivation rules apply from the time you permanently vacate the home until the end of the five year period from the creation of the interest. The deprivation rules do not apply if you are temporarily absent from your home for up to 12 months. If your absence is due to loss or damage to your home, this period may be extended for up to two years.

How to find out more

Financial Information Service 13 2300

Planning for or needing help in retirement

**Financial Information Service
seminar bookings 13 6357**

**Caring for someone who is frail, aged
or who has a disability 13 2717**

Looking for work 13 2850

Parent or guardian 13 6150

**To speak to Centrelink in languages
other than English 13 1202**

TTY* enquiries Freecall™ 1800 810 586

*TTY is only for people who are deaf or have a hearing or speech impairment. A TTY phone is required to use this service.

Go to our website at www.centrelink.gov.au

Check the “we speak your language” link on Centrelink’s website for information in languages other than English.

Note: calls from your home phone to Centrelink “13” numbers from anywhere in Australia are charged at a fixed rate. That rate may vary from the price of a local call and may also vary between telephone service providers. Calls to “1800” numbers from your home phone are free. Calls from public and mobile phones may be timed and charged at a higher rate.

Disclaimer

The information contained in this publication is intended only as a guide to payments and services. It is your responsibility to decide if you wish to apply for a payment and to make an application, with regard to your particular circumstances.

This information is accurate as at November 2009. If you use this publication after that date, please check with us that the details are current.