Increase Age Pension gifting limits to support older people who give to charity and future generations.

Overview

- With inflation causing severe cost-of-living impacts on all Australians, many younger and vulnerable households are under enormous financial strain.
- As NSA research shows, older people want to contribute to society and are concerned about future generations.
- Older people already make significant contributions to charity (the 75+ age group were the most likely to make donations of any age group[55]). However, as several surveys show, donating to charity is resource dependent and tends to increase as income and financial comfort increases.[56,57]
- While Australia's philanthropy overall ranks only 19th in the world[58] it could be better if the right incentives made donating more attractive.
- While charity laws provide a tax deduction for people to donate, this only provides an incentive to people who pay tax. Older people with a majority of their wealth in tax-free superannuation may not respond to tax deductions.
- With persistent fears about cost-of-living[59] and retirement income, older people may be more conservative with their money and less inclined to give if this has a negative impact on their income and financial wellbeing.
- Changing Age Pension gifting limits could provide an incentive for older people to give or give more to younger people or to charity.

WHAT ARE WE CALLING FOR?

- Age Pension gifting limits should be increased in line with inflation (and indexed annually to maintain the real value of gifting).
- Based on average inflation of 2.6%, the overall gifting limit for a single pensioner in 2024 should be at least $17,500.
- The gifting limit for couples should be increased in line with means testing rules. Based on the difference in the assets test for singles and couples, the gifting limit for a couple should be $26,500 per year.
- Government should also fund an ongoing campaign to explain gifting limits and how part-pensioners can give to charity and younger generations.

Why is the policy needed?

- Gifting rules create a financial disincentive to giving. When a part-pensioner gives money beyond the $10,000 gifting limit (single or couple) they lose access to wealth to support their own consumption. Logically, it would be against their own interests to gift beyond the gifting limit as they would be financially worse off.
- When people give to charity and claim a tax deduction they are doing so, in part, because the tax deduction has a positive impact on their own income. This same logic applies to gifting rules, but current limits are inadequate.

- The gifting limit of $10,000, set in July 2002, has not changed in more than 20 years despite strong inflation. For example, housing prices have risen on average 8.6% per annum from 2002 to 2020[60] and inflation has increased on average by 2.6% per annum yet gifting limits haven't. This means the amount of money an individual can legitimately give to charity has decreased in real terms.
- Raising Age Pension gifting limits could encourage part-pensioners to give to younger people or to charity to help those in need, giving them a similar incentive to charitable tax deductions.
- This could help to increase the transfer of wealth to younger generations to pay for health, education and housing and to provide charities with additional resources.

Budget impact

- Part-pensioners gifting beyond the $10,000 limit would receive a higher pension payment in 2024 if the gifting limit was increased in line with inflation because the additional amount will not count towards the pension means test.
- There are currently 346,000 part-pensioners, roughly half of whom are single.[61] Under proposed changes, if every part-pensioner gifted to the maximum gifting limit:
  - The total cost to the Federal Budget would be approx. $593 million in 2024. Approx. $324m of this total would be additional forgone revenue (assuming every part-pensioner gifts to the current limit, which they may not).
  - The total money gifted under the new limits would equal $7.6b of which $4.2b could be additional gifts or donations (assuming every part-pensioner gifts to the current limit) - a significant transfer of wealth within the economy.
  - If the entire $7.6b was directed to charities this would be 12 times the cost to government – a significant multiplier effect.