

Granny Flats

Sometimes living alone may not be the best option. You may wish to move in with your children, another close relative or friend, or transfer the ownership of your home as part of the arrangement. The arrangements can be either formal or informal and you receive the right to accommodation for life.

This might involve you moving into someone else's home or into a granny flat built on their property. Alternatively, you can transfer ownership of your home to that person and continue to live in the home.

This arrangement may involve a gift of money, payment of expenses, or the transfer of the title of your home.

Normally the transfer of money or assets would come under Centrelink/Veterans' Affairs (DVA) gifting rules. But the granny flat rules determine how this transfer is assessed and the interaction with gifting rules.

Who is this Suitable for?

This strategy is suitable for a person who:

- Wishes to transfer money or assets to children or other relatives (in return for the right to accommodation for life) as part of estate planning.
- Wants to be cared for by someone close to them, rather than move into an aged care facility.
- Receives a Centrelink/DVA payment and wishes to transfer money or assets to children or other relatives for the right to accommodation for life without impacting their entitlements.

How this Strategy Works

Granny flat rights can be created in several ways:

- You may transfer full ownership of your home to another person who agrees that you can continue living in the home for life. The transfer must be legally registered. If only part ownership is transferred, normal gifting rules may apply.
- You provide money to construct a granny flat (unit) on another person's property and receive the right to live there for life.
- You provide all or part of the purchase price of a property which is owned by another person and receive the right to live there for life.
- You provide money in return for the right to live in another person's existing home for life.

How are Granny Flat Rights Assessed by Centrelink/DVA?

The Centrelink and DVA treatment of a granny flat arrangement depends on the value of the assets transferred and whether the amount paid is considered reasonable.

You should discuss your individual circumstances with your local Centrelink/DVA office before taking any action to determine how you will be assessed.

If you pay money that equals the purchase or construction costs or you transfer full ownership of your home, this is deemed to be a 'reasonable amount'. In these circumstances, gifting rules generally do not apply.

If you transfer additional amounts, Centrelink/DVA will determine the 'reasonable amount' for the granny flat right using a formula with a conversion factor (shown below) based on your age and the maximum rate of age pension (couple rate). Any amount paid or transferred over this reasonable amount is a gift and is assessed under deprivation rules.

Deprivation applies if the amount deemed to be a gift (single or couple combined) is more than:

- \$10,000 per financial year, or
- \$30,000 over a five year rolling period (includes current financial year and the four previous financial years)

Deprived assets are assessed against the income and assets tests for the next five years and may have a negative impact on your Centrelink/DVA entitlements.

If you move out of the granny flat within five years and the reason for leaving could reasonably have been anticipated when the arrangement was established, gifting rules may be applied retrospectively.

Some details to be aware of include:

- For Centrelink/DVA purposes, granny flat rights do not need to be written agreements however Centrelink/DVA may request a statement that the arrangement has begun
- The amount paid or transferred for the granny flat right is an exempt asset (except deprived asset amounts) and you are assessed as a homeowner if the amount paid is above the extra allowable amount of \$258,000 (from 1 July 2026). If you pay \$258,000 or less you are treated as a non-homeowner and the amount paid is an assessable asset
- If you are transferring ownership of your home Centrelink/DVA may use the value accepted for stamp duty or may choose to receive a valuation from the Australian Valuation Office.

If you have paid money for construction of the granny flat you need to provide a copy of the building contract to Centrelink/DVA to verify the construction cost.

Other Things You Should Know

Granny flat arrangements may not work out. You may wish to formalise the arrangement to protect yourself by having a solicitor draw up an agreement and identify any other details. This agreement may include:

- The quality and type of the accommodation to be provided
- Whether the accommodation is in a particular property or in any property
- How the granny flat right can be dissolved if the arrangement is no longer suitable

You should also ask your solicitor to review and formalise your estate planning arrangements such as your Will and Powers of Attorney.

The value of the granny flat arrangement may represent a significant proportion of your estate so it is important to prevent potential rifts between family members. You may find it difficult to get your money back if you no longer want to live in the granny flat.