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THE CENTRELINK PUZZLE

UNDERSTANDING THE AGE PENSION MEANS TESTS AND HOW THEY SHAPE YOUR RETIREMENT

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INSIDE

BY WEALTH ADVISER

Here is a question that catches many Australians off guard: a couple sells their investment property for $600,000 and deposits the proceeds in a term deposit. They already own their home and have modest super. They assumed the sale would make them more comfortable in retirement. Instead, their Age Pension drops by several hundred dollars a fortnight. What went wrong?

Nothing, technically. The means tests did exactly what they were designed to do. The couple simply did not realise that moving wealth from one form to another — in this case, from an investment property to cash — changes how Centrelink assesses their entitlements. And that gap between expectation and outcome is one of the most common planning failures in Australian retirement.

For many retirees, the assets test is the binding constraint. But for others — particularly those with significant financial assets generating deemed income, or those receiving income from employment, rental properties, or foreign pensions — the income test can be the one that limits their payment.

Around three in five Australians over 67 receive some form of Age Pension. For many, it forms a significant share of their retirement income. Yet the system that determines how much you receive — two overlapping means tests that assess your income and your assets — is poorly understood even by people who depend on it. This article aims to change that, not by turning you into a Centrelink expert, but by giving you enough understanding to see why the means tests should be a central part of any conversation with your financial adviser.

Two Tests, One Pension

Centrelink applies two separate tests to determine your Age Pension entitlement: the income test and the assets test. Both are assessed, and whichever test produces the lower pension amount is the one that applies. This is sometimes called "the test that bites."

For many retirees, the assets test is the binding constraint. But for others — particularly those with significant financial assets generating deemed income, or those receiving income from employment, rental properties, or foreign pensions — the income test can be the one that limits their payment. Understanding which test is driving your outcome is the starting point for any planning conversation.

The Assets Test

The assets test is conceptually straightforward. Centrelink adds up the value of your assessable assets — everything you own except your principal home — and compares the total to a set of thresholds.

Below the lower threshold, you receive the full pension. Above the lower threshold, your pension reduces by $3 per fortnight for every $1,000 of assets above that line. Once your assets reach the upper threshold, the pension cuts off entirely.

To give you a sense of scale, as at 20 September 2025 (these thresholds are reviewed three times a year), a homeowner couple can hold up to $481,500 in assessable assets and still receive the full pension. The part-pension cuts off entirely at $1,074,000. For a single homeowner, the corresponding figures are $321,500 and $714,500. Non-homeowners have higher thresholds — $739,500 and $1,332,000 for a couple — reflecting the fact that they need to fund their housing from their assets.

Your family home is exempt from the assets test, which is why it occupies such a significant position in retirement planning. But almost everything else counts: superannuation balances (once you have reached Age Pension age), bank accounts, shares, managed funds, investment properties at market value, household contents, vehicles, and any interest in trusts or companies.

The Income Test

The income test assesses income from all sources — not just employment. For most retirees, the largest component is deemed income from financial assets, but it also captures rental income, employment income (subject to the Work Bonus, discussed below), foreign pensions, and certain income streams.

A single person can have assessable income of up to $218 per fortnight and still receive the full pension. For a couple, the combined threshold is $380 per fortnight. Above those levels, the pension reduces by 50 cents for every additional dollar of income for a single person, or 25 cents per person per dollar for a couple.

The Work Bonus provides a significant carve-out for employment income: the first $300 per fortnight of earnings from work is not counted in the income test. Unused portions of this exemption accumulate in a "Work Bonus balance" up to a maximum of $11,800, which can offset future employment income in periods when you earn more. New pension claimants now receive a $4,000 starting balance in their Work Bonus account, giving them immediate capacity to earn more from work without affecting their pension. This is a genuinely valuable concession for retirees who do part-time or seasonal work.

Deeming: The Income Centrelink Thinks You Earn

This is where the system becomes less intuitive. Rather than assessing the actual income your financial assets produce, Centrelink uses "deeming" — a formula that assumes your financial assets earn a set rate of return regardless of what they actually earn.

As at 20 September 2025, the deeming rates are 0.75 per cent on financial assets up to $64,200 for a single person

($106,200 for a couple), and 2.75 per cent on everything above those thresholds. These rates were increased in September 2025 for the first time in five years, after being frozen at emergency low levels during the pandemic.

Deeming applies to all financial assets: bank accounts, term deposits, superannuation in pension phase, managed funds, shares, and account-based income streams. It does not apply to your home, your car, your furniture, or rental property (rental income is assessed separately at the actual amount received).

The deeming system creates both advantages and disadvantages. If your investments are generating returns well above the deemed rate — as many account-based pensions and diversified portfolios do — you benefit, because Centrelink assesses less income than you actually receive. Conversely, if you hold large amounts in low-interest savings accounts earning less than the deemed rate, you are assessed on income you are not actually receiving.

The September 2025 increase was modest — half a percentage point on both the lower and upper rates — but it was enough to reduce some part-pensioners' entitlements. For each $100,000 in financial assets, the increase translated to roughly $10 less in fortnightly pension. If your adviser has not already reviewed the impact on your position, it is worth raising at your next meeting.

Which Test Is Driving Your Outcome?

Understanding which test currently constrains your pension — and whether that could change — is one of the most useful things you can establish with your adviser.

As a rough guide, the assets test tends to bite for people with moderate to high asset levels but relatively low investment income (or income that is sheltered by deeming). The income test tends to bite for people with lower asset levels but significant income streams — for example, someone with a defined benefit pension, substantial rental income, or a large foreign pension.

Many financial decisions shift the balance between the two tests. Selling an investment property, for instance, may not significantly change your total assessable assets — the property's market value was already counted — but it replaces a directly assessed income stream (actual rent) with deemed income on the cash proceeds, which can change which test bites and by how much. Whether that shift is beneficial depends entirely on the numbers in your specific situation — which is precisely why Centrelink modelling should be part of any major financial decision in retirement.

Common Traps: When Good Decisions Have Bad Centrelink Outcomes

The means tests interact with financial decisions in ways that are not always obvious. Several common scenarios catch people out.

The first is gifting to children. Many retirees want to help adult children with a home deposit, a business, or education costs. Centrelink allows gifts of up to $10,000 per financial year, with a cap of $30,000 over any rolling five-year period (the same limits apply whether you are single or a couple). Exceed those limits and the excess is treated as a "deprived asset" — Centrelink continues to count it as though you still own it, for both the assets test and deeming purposes, for five years from the date of the gift. A well-meaning $50,000 gift to help with a house deposit means $40,000 remains on your Centrelink books for half a decade, reducing your pension as though the money were still in your bank account.

The second is downsizing and the family home. Your home is exempt from the assets test. If you sell it and buy a cheaper property, the difference in price lands in your assessable assets. A couple who sell a $1.5 million home and buy a $900,000 apartment have just added $600,000 to their assessable asset base — potentially wiping out their pension entirely. The downsizer contribution scheme (covered in detail in a separate article in this series) allows people aged 55 and over to contribute up to $300,000 per person from home sale proceeds into super, but those super balances are then assessable assets too. The planning here is about understanding the trade-offs, not avoiding change altogether.

The third is paying off a mortgage with super or savings. A mortgage on your principal home is not deducted from your assessable assets — your home is simply exempt. But if you withdraw $200,000 from super to pay off the mortgage, you have removed $200,000 from your assessable assets (since the super was assessable) and converted it into home equity (which is exempt). This can actually improve your pension position. The reverse, however, catches people: drawing down on your home equity through a reverse mortgage or the Home Equity Access Scheme adds to your assessable financial assets.

The fourth is restructuring investments without considering Centrelink. Moving from a rental property (where actual rent is assessed as income) to a managed fund (where the entire balance is deemed) can change which test bites and by how much. So can consolidating multiple super accounts, switching from accumulation to pension phase, or changing the mix of assets within a portfolio. None of these moves are inherently good or bad — but each has a Centrelink consequence that should be modelled before you act.

The Family Home: The Biggest Planning Variable

Because the principal home is exempt from the assets test regardless of its value, it occupies a unique position in the means test framework. A couple living in a $3 million home with $400,000 in other assets qualifies for a full pension under the assets test. A couple renting with $1.2

million in super and savings may receive no pension at all.

This is not a reason to buy the most expensive home you can find — housing decisions involve far more than pension entitlements. But it does mean that any decision involving your home has outsized Centrelink implications. Downsizing, renovating, moving into aged care (where the home's exempt status can change depending on whether a partner remains living there), or transferring the home to family members — each of these triggers means test consequences that should be carefully modelled.

For readers considering aged care planning, the interaction between the family home and the means tests is particularly consequential and was explored in more detail in a separate article in this series.

Discussion Points for Your Adviser

The means tests touch almost every significant financial decision in retirement. Several questions are worth raising at your next review.

Which test — income or assets — is currently determining your pension amount, and by how much? If you are considering selling or restructuring any asset, what does the Centrelink modelling show in terms of pension impact over the next three to five years? Have the September 2025 deeming rate increases affected your position, and is there anything worth adjusting in response? If you are planning to help family members financially, are you aware of the gifting limits and the five-year deprivation rules? If downsizing is on the horizon, what are the pension implications of different price points for a new home — and does the downsizer contribution change the calculus? For couples, what happens to the surviving partner's pension position if one partner passes away — given that asset thresholds drop significantly and the home's exempt status may change?

The means tests are not designed to penalise you. They are designed to target government support toward those who need it most. But they are complex enough that well-intentioned financial decisions can have unintended consequences. Understanding the framework — and making sure Centrelink modelling is part of your adviser's toolkit — is one of the most practical things you can do to protect your retirement income.

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POWER OF ATTORNEY

THE DOCUMENT THAT COULD MATTER MORE THAN YOUR WILL

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BY WEALTH ADVISER

Most people think of estate planning as something that takes effect after they die. The will, the testamentary trust, the beneficiary nominations — all designed for the world you leave behind. But there is a document that matters far more during your lifetime, and the window for creating it is narrower than most people realise.

An enduring power of attorney authorises someone you trust to manage your financial and legal affairs if you lose the capacity to manage them yourself. Without one, your family cannot simply step in. They cannot access your bank accounts, pay your bills, manage your investments, sell your property, or deal with Centrelink on your behalf — no matter how close the relationship, no matter how obvious the need.

With an estimated 446,500 Australians living with dementia in 2026 — a figure projected to reach over 812,000 by 2054 and exceed one million by 2065 — and countless others affected by strokes, accidents, and other sudden incapacity, this is not an abstract risk. It is a planning priority that belongs alongside your will, your insurance, and your superannuation strategy.

What Happens Without One

If you lose the ability to make your own decisions and you have not appointed an enduring attorney, your family faces a difficult and often distressing process. Someone — usually a spouse, adult child, or other family member — must apply to a state or territory tribunal (such as NCAT in New South Wales, VCAT in Victoria, QCAT in Queensland, or SAT in Western Australia) to be appointed as your financial manager or administrator.

This is not a formality. The tribunal will assess your capacity, consider who is appropriate to manage your affairs, and make a determination following a hearing. The process takes time — weeks or months — during which your bills may go unpaid, your investments unmanaged, and your financial affairs effectively frozen. If family members disagree about who should be appointed, the proceedings become adversarial. In some cases, the tribunal may appoint the Public Trustee or Public Guardian rather than a family member, particularly where there is conflict or no suitable person is available.

The costs are real: legal fees for the application, ongoing administration fees if a public trustee is appointed, and the emotional toll on a family already dealing with a health crisis. All of this is avoidable with a document that a solicitor can prepare in a single appointment.

What an Enduring Power of Attorney Covers

An enduring power of attorney (EPOA) gives your chosen person — your "attorney" — the legal authority to act on your behalf in financial and legal matters. This typically includes

operating bank accounts, paying bills, managing investments, buying or selling property, dealing with government agencies, and signing legal documents.

The word "enduring" is critical. A general power of attorney ceases to operate if you lose mental capacity — precisely the moment you need it most. An enduring power of attorney, by contrast, continues to operate (or begins to operate, depending on how you set it up) after you lose the capacity to make your own decisions. This is the whole point of the document.

You choose when the EPOA takes effect. Some people activate it immediately upon signing, which is useful if you travel frequently or want your attorney to be able to act while you are still capable but unavailable. Others specify that it only activates when they lose capacity. Your solicitor can help you decide which approach suits your circumstances.

An EPOA does not cover medical or lifestyle decisions — where you live, what health care you receive, whether you consent to medical procedures. Those decisions require a separate document, discussed below.

Who to Appoint — and How to Structure It Well

Choosing your attorney is the most consequential decision in the process. This person will have significant power over your financial life at a time when you cannot oversee their actions. The appointment should be made thoughtfully, not reflexively.

Most people appoint a spouse, an adult child, or a close family member. That is often the right choice, but it should be an active decision, not a default. Consider whether the person you are appointing has the practical skills to manage financial affairs, the temperament to make decisions under pressure, and the integrity to act in your interests rather than their own. A loving family member who is poor with money, overwhelmed by paperwork, or in financial difficulty themselves may not be the right choice — and there is no shame in recognising that.

You can appoint more than one attorney, and how you structure multiple appointments matters. Appointing attorneys "jointly" means they must agree on every decision — this provides a built-in check, but can create delays if one attorney is unavailable or if they disagree. Appointing attorneys "severally" means any one of them can act independently — faster and more practical, but with less oversight. A common middle ground is appointing two attorneys jointly for major decisions (selling property, for example) and severally for routine matters (paying bills, managing accounts).

You can also include conditions and limitations. If you want your attorney to manage your day-to-day finances but not sell your family home without the agreement of a second person, you can specify that. If you want to require your attorney to keep records of major transactions, you can include that requirement. These safeguards are worth discussing with your solicitor, particularly where the estate is complex or family dynamics are sensitive.

If you are concerned about having a single point of control, consider appointing a professional — such as a solicitor, accountant, or trustee company — as a co-attorney or as a fallback if your primary attorney is unable to act. This adds cost but provides an additional layer of accountability.

Choosing your attorney is the most consequential decision in the process. This person will have significant power over your financial life at a time when you cannot oversee their actions. The appointment should be made thoughtfully, not reflexively.

A Note on State and Territory Differences

Powers of attorney are governed by state and territory legislation, and the rules vary across jurisdictions. The terminology differs — what is called an "enduring power of attorney" in most states covers only financial decisions, while medical and lifestyle decisions require a separate document (an "enduring guardian" in NSW, a "medical treatment decision maker" in Victoria, an "advance health directive" in Queensland, and so on). In Queensland and the ACT, a single enduring power of attorney can cover both financial and personal or health matters, though specific forms and witnessing requirements still apply.

The witnessing requirements, prescribed forms, and registration rules also differ by state. This is an area where getting it right matters — a document that does not comply with your state's requirements may be invalid precisely when it is needed most. A solicitor in your state should prepare these documents. It is not expensive, and it is not a place to cut corners.

The Companion Document: Medical Decision-Making

While you are with your solicitor preparing an EPOA, there is a second document you should prepare at the same time — one that covers the decisions your financial attorney cannot make.

Every state and territory has a mechanism for appointing someone to make medical, health care, and lifestyle decisions on your behalf if you lose capacity. The terminology

varies — enduring guardian, medical treatment decision maker, advance care directive — but the purpose is consistent: ensuring that someone you trust can consent to medical treatment, decide where you live, and make personal care decisions if you cannot.

This is not just a concern for the elderly. A serious accident or sudden illness can leave anyone temporarily or permanently unable to communicate their wishes. Without a medical decision-making document, health care providers may need to seek directions from a tribunal, or decisions may fall to a statutory hierarchy that does not reflect your actual preferences.

The medical document and the financial EPOA work as a pair. You may appoint the same person for both roles, or different people — a spouse for medical decisions and an adult child with financial expertise for the EPOA, for example. What matters is that both roles are filled by people you trust, and that each person knows they have been appointed.

Many people also find it valuable to prepare a separate statement of wishes — not a legally binding document, but a written expression of your values, preferences, and priorities for care. This can guide your medical decision-maker in situations the formal document does not specifically address.

When to Do This — and When to Review It

The single most important thing about an enduring power of attorney is that you must make it while you still have capacity. Once you have lost the ability to understand and make decisions, it is too late. There is no retrospective fix.

This means the right time to prepare these documents is now — not when a diagnosis arrives, not when health begins to decline, not when a hospital admission forces the issue. Preparing an EPOA while you are healthy is not pessimistic. It is practical, and it is an act of care for the people who would otherwise have to deal with a tribunal application during one of the most stressful periods of their lives.

It is also worth reviewing your documents periodically. Relationships change — the person you appointed a decade ago may no longer be the right choice due to their own health, a change in your relationship, or a shift in circumstances. If your attorney has died, moved overseas, or become estranged, the document needs updating. A review every three to five years, or after any major life change, is sensible.

Discussion Points for Your Adviser

Power of attorney sits at the intersection of legal planning, financial strategy, and family dynamics. Several questions are worth raising at your next review.

Do you have a current enduring power of attorney, and does it reflect your present circumstances and wishes? If you have one, when was it last reviewed — and is the person you appointed still the right choice? Have you also prepared a medical decision-making document for your state, and does your family know where both documents are kept? If you have complex financial affairs — an SMSF, investment properties, business interests, or assets in multiple states — does your EPOA give your attorney sufficient authority to manage them? For SMSF owners in particular, has the fund's trust deed been reviewed to confirm that your attorney can step into the trustee role if needed — because the EPOA alone may not be enough? For couples, have you each prepared separate documents, and have you considered what happens if you both lose capacity at the same time? If estate planning or aged care planning is on your agenda (both covered in detail in separate articles in this series), has your adviser confirmed that the right powers of attorney are in place to support those plans?

A will determines what happens to your wealth after you die. An enduring power of attorney determines who looks after it — and you — while you are still alive. For many Australians, it is the more urgent document. If you do not have one, or if yours is out of date, a conversation with your solicitor is one of the most practical steps you can take this year.

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THE NEW SUPER TAX

WHAT DIVISION 296 MEANS FOR LARGE BALANCES — AND WHY EVERYONE SHOULD UNDERSTAND IT

BY WEALTH ADVISER

Imagine you have spent thirty years building your superannuation balance. You have maximised contributions, invested thoughtfully, and watched compound growth do its work inside one of the most tax-effective structures available to Australians. Then the rules change.

From 1 July 2026, a new layer of taxation — Division 296 — will apply to superannuation earnings attributable to balances above $3 million. A second, higher tier kicks in above $10 million. The government estimates that fewer than 0.5 per cent of Australians will be directly affected in the first year. But even if your balance is well below those thresholds today, this reform matters. It signals a shift in how Canberra views the purpose and limits of superannuation tax concessions, and it may shape the decisions you and your adviser make for decades to come.

How We Got Here

The original proposal, announced in February 2023, attracted fierce criticism. It would have taxed unrealised capital gains — meaning you could have owed tax on an increase in the value of property or shares inside your fund that you had not actually sold. The $3 million threshold was not indexed, raising concerns that inflation and compulsory contributions would push steadily more Australians above the line over time.

After more than two years of feedback, the government announced a significant rework in October 2025. Draft legislation was released for consultation in December 2025. The revised design addresses the two most contentious elements: unrealised gains are no longer taxed, and both thresholds will be indexed to inflation. The measure is proposed to commence on 1 July 2026, with the first assessments based on balances at 30 June 2027.

Whether or not the legislation has passed by the time you read this, the direction of travel is clear. Understanding what the tax does — and what it signals — is worth your time regardless of where your balance sits today.

What Division 296 Actually Does

Division 296 is a personal tax, levied on the individual rather than on the superannuation fund itself. It applies to people whose total superannuation balance — aggregated across all funds, including any SMSF — exceeds $3 million at the relevant measurement point.

The tax works proportionally. It does not apply to your entire balance or your total earnings. Instead, it applies only

A critical design feature of the revised legislation is that earnings are now based on the fund's realised income — interest, dividends, rent, and actual capital gains from assets that have been sold — rather than on changes in the total balance that might include unrealised paper gains.

to the share of your fund's earnings that corresponds to the share of your balance above the threshold.

There are two tiers. For the portion of your balance between $3 million and $10 million, an additional 15 per cent tax applies to the corresponding share of earnings. This brings the headline rate on those earnings to 30 per cent when combined with the existing 15 per cent concessional tax rate paid by the fund. For balances above $10 million, a further 10 per cent applies, bringing the combined headline rate on that portion to 40 per cent.

Both thresholds will be indexed to the Consumer Price Index, with the $3 million threshold increasing in $150,000 increments and the $10 million threshold in $500,000 increments. Indexation will only ratchet upward — the thresholds cannot decrease.

A critical design feature of the revised legislation is that earnings are now based on the fund's realised income — interest, dividends, rent, and actual capital gains from assets that have been sold — rather than on changes in the total balance that might include unrealised paper gains. This is a fundamental improvement over the original proposal and removes the risk of being taxed on growth you have not yet received.

A Worked Example

Consider Margaret, who has a total superannuation balance of $4.5 million at 30 June 2027, held across an SMSF and an industry fund. Her funds report combined Division 296 earnings of $300,000 for the year.

The proportion of her balance above the $3 million threshold is $1.5 million out of $4.5 million — one-third, or 33.33 per cent. Her entire balance sits below $10 million, so the second tier does not apply.

Her Division 296 tax liability is 15 per cent of 33.33 per cent of $300,000, which comes to $15,000. She can choose to pay this from personal funds outside super or elect to have it released from one of her superannuation accounts.

The effective additional tax rate on Margaret's total super earnings is 5 per cent — not 15 per cent, because the tax only applies to the proportion of earnings attributable to the balance above $3 million. The closer your balance is to the threshold, the smaller the proportional bite. The further above it, the larger the proportion of your earnings that attracts the additional tax.

For someone well above $10 million, the calculation becomes more complex as both tiers interact, and the effective rate rises accordingly. Your adviser can model the specific impact on your circumstances.

Why This Matters Even If You Are Below $3 Million

The government estimates that around 90,000 Australians — fewer than 0.5 per cent of account holders — will be affected at the $3 million level in the first year, with fewer than 8,000 at the $10 million level. For the vast majority, Division 296 will not appear on any tax assessment.

So why should you care?

First, the reform confirms that the government views superannuation tax concessions as subject to limits. The legislated objective of superannuation — to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way — is now being actively used to justify reining in concessions for larger balances. Whether you agree with the policy or not, this framing has implications for how super may be treated in future budgets.

Second, while the thresholds will be indexed, some commentators have noted that super balances tend to grow faster than CPI over long periods, driven by compulsory contributions (now at 12 per cent of wages), voluntary top-ups, and investment returns. An Australian in their forties with $1.5 million in super today and strong earnings growth could plausibly approach $3 million by retirement. The indexation mechanism reduces the speed of bracket creep compared to the original unindexed proposal, but it does not eliminate it entirely. This is worth factoring into long-term planning conversations with your adviser.

Third, the structure of Division 296 — a proportional tax on a share of earnings above a threshold — creates a new set of planning considerations around where wealth is held, how assets are structured, and when capital gains are realised. These considerations affect not just those currently above $3 million but anyone making strategic decisions about how much to contribute to super versus investing outside it.

What Changed from the Original Proposal

Much of the public commentary still references the 2023 design. The revised legislation is materially different in several respects worth noting.

The most significant change is that unrealised gains are no longer taxed. The original proposal calculated earnings using the change in your total balance, capturing paper gains on assets you had not sold. The revised version uses realised earnings only — actual income and capital gains from disposals.

Both thresholds are now indexed to CPI, and a second tier at $10 million has been introduced — neither of which featured in the original design. The start date has shifted from 1 July 2025 to 1 July 2026, with the first measurement at 30 June 2027.

An integrity measure has also been added. From the 2027–28 financial year onward, the tax uses the higher of your total super balance at the start or end of the year, preventing someone from temporarily withdrawing a large sum just before 30 June to reduce their measured balance. A transitional concession applies in the first year (2026–27), where only the end-of-year balance is used.

Planning Considerations for Those Approaching or Above the Threshold

If your total super balance is near or above $3 million, several planning questions are worth discussing with your adviser sooner rather than later.

The first is whether super remains the most tax-effective structure for all of your wealth. Even with the additional tax, super may still offer a lower effective rate than holding the same assets personally or in a trust, depending on your marginal tax rate, the type of income the assets generate, and whether they are in accumulation or pension phase. The comparison is not straightforward, but your adviser can model the after-tax outcomes across different structures for your specific situation.

The second consideration is the timing of capital gains. Because the tax applies only to realised earnings, the year in which you sell an asset matters. Realising a large capital gain when your balance is well above $3 million will attract a higher proportional Division 296 charge than realising it when your balance is closer to the threshold. This does not mean deferring all asset sales — there are sound investment reasons to sell — but the timing and sequencing of disposals becomes a more consequential decision.

Third, for SMSF trustees, the cost-base reset mechanism is a significant transitional opportunity. SMSFs can elect to reset the cost base of all fund assets to their market value as at 30 June 2026, for Division 296 purposes only. Capital gains accumulated before the tax commenced will then not be caught when those assets are eventually sold. The election is all-or-nothing — you cannot cherry-pick assets — and must be made by the due date of the fund's 2026–27 income tax return. Importantly, any SMSF can opt in, even if its members are currently below $3 million. This is a conversation to have with your SMSF accountant before the deadline.

Finally, the transitional rule for the first year creates a specific window. In 2026–27 only, the threshold test uses your balance at 30 June 2027 alone. Withdrawals made before that date can reduce or eliminate your Division 296 exposure for that first year. From 2027–28 onward, withdrawing during the year will not help if your balance was above $3 million at the start.

Superannuation Still Works

It would be easy to read about Division 296 and conclude that superannuation has lost its appeal. That would be a mistake.

For the vast majority of Australians, the tax environment inside super remains significantly more favourable than outside it. Contributions are taxed at 15 per cent — well below most people's marginal rate. Investment earnings in accumulation phase are taxed at a maximum of 15 per cent, with a one-third discount on capital gains held longer than twelve months. In the retirement phase, earnings on assets supporting income streams are tax-free, up to the transfer balance cap of $1.9 million (2024–25, and expected to index higher in coming years).

Even for those above $3 million, the combined headline rate of 30 per cent on the excess portion remains competitive with personal marginal rates for high-income earners. Super does not become a bad deal at $3 million — it becomes a less generous deal on the margin.

The real implication is that the optimal mix of super and non-super wealth becomes a more consequential planning question. For some people, the answer will be to moderate future contributions as their balance approaches the threshold. For others, it will be to restructure how assets are held to manage the timing of realised earnings. For most, the right response will be to talk to their adviser about what the numbers look like in their specific situation.

Discussion Points for Your Adviser

Division 296 introduces planning considerations that interact with contribution strategy, investment structure, estate planning, and retirement income design. Several questions are worth raising at your next review.

Where does your total super balance sit relative to the $3 million threshold, and where might it be in five, ten, or fifteen years given your current contribution rate and expected investment returns? If your balance is approaching the threshold, what does the after-tax comparison look like between holding additional wealth inside super versus outside it — in your personal name, in a trust, or in a company structure? If you hold assets with significant unrealised capital gains inside an SMSF, have you discussed the cost-base

reset election with your accountant, and is there a deadline you need to be aware of? Does the timing of any planned asset sales inside super need to be reconsidered in light of how Division 296 calculates the proportional tax? How does Division 296 interact with your estate plan — particularly if your super balance, combined with a reversionary pension from a spouse, could push the surviving partner above $3 million?

The legislation — the Treasury Laws Amendment (Building a Stronger and Fairer Super System) Bill 2026 — was introduced to Parliament on 11 February 2026 and is expected to be debated in March. It has not yet been enacted, and specific details may be subject to amendment during the parliamentary process. Your adviser can help you distinguish between strategies that make sense regardless of the final detail and those that should wait for legislative certainty.

The broader message is straightforward. Superannuation remains a powerful wealth-building tool for Australians at every level. Division 296 does not change that. What it does change is the calculus at the upper end — and for anyone planning over a multi-decade horizon, understanding that shift now is better than discovering it later.

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Q&A: Ask a Question

Question 1

I know Centrelink looks at my income and my assets to work out the Age Pension, but I'm not sure which one is actually affecting my payment. Does it matter?

Centrelink applies two separate tests — an income test and an assets test — and whichever one produces the lower pension amount is the one that determines what you receive. This is sometimes called "the test that bites," and it can change over time as your circumstances shift.

For many retirees, the assets test is the binding constraint. But if you have significant income streams — such as rental income, a defined benefit pension, or employment earnings — the income test may be the one limiting your payment. The key point is that financial decisions like selling an investment property, consolidating super, or restructuring your portfolio can shift which test applies and by how much. For example, selling a rental property and placing the proceeds in a term deposit may not change your total asset position much, but it replaces actual rental income with deemed income on the cash, which can alter your pension outcome in ways that aren't immediately obvious.

Understanding which test is currently driving your payment — and how planned changes might shift that balance — is one of the most practical things you can discuss with your adviser at your next review.

Question 2

I've been reading about a new tax on super balances over $3 million. Should I be worried, and does it change how I think about my super strategy?

The proposed measure, known as Division 296, would introduce an additional tax on a portion of superannuation earnings for balances above $3 million. For the portion between $3 million and $10 million, the additional 15 per cent tax brings the combined rate on those earnings to 30 per cent. Above $10 million, an additional 25 per cent applies, bringing the combined rate to 40 per cent. It is expected to commence from 1 July 2026, though the legislation is still before Parliament and details may change.

Importantly, the tax doesn't apply to your entire balance or all of your earnings. It applies only to the share of earnings that corresponds to the proportion of your balance above the threshold. Both thresholds will be indexed to inflation, and the revised design only taxes realised earnings — not unrealised paper gains.

The government estimates fewer than 0.5 per cent of Australians would be directly affected in the first year. However, the reform is still relevant for long-term planning. Super balances can grow faster than inflation over time, so someone well below the threshold today could approach it by retirement. Even if you're not near $3 million, it's worth considering how this fits into broader decisions about how much wealth to hold inside super versus outside it. Your adviser can help you think through what the changes might mean for your strategy over the longer term.

Question 3

My will is sorted, but someone mentioned I also need a power of attorney. What is it and why is it so important?

A will only takes effect after you pass away. An enduring power of attorney covers what happens while you're still alive — specifically, it authorises someone you trust to manage your financial and legal affairs if you lose the capacity to do so yourself. This could include paying bills, managing investments, operating bank accounts, or dealing with government agencies on your behalf.

Without one, your family cannot simply step in, no matter how close the relationship. Instead, someone would need to apply to a state or territory tribunal to be appointed as your financial manager — a process that can take weeks or months, during which your finances may be effectively frozen. The costs, delays, and emotional strain on your family can be significant.

The critical point is that an enduring power of attorney must be prepared while you still have capacity to make decisions. Once capacity is lost, it's too late. It's also worth knowing that powers of attorney are governed by state and territory law, so the forms, witnessing rules, and terminology differ depending on where you live. A solicitor in your state can prepare the document, and it's well worth reviewing every few years or after any major life change to make sure it still reflects your wishes.

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.