

EXECUTIVE SUMMARY

Special Disability Trusts (SDTs) were introduced in September 2006 to assist parents and immediate family members wishing to make private financial provision for the current or future accommodation and care of a family member with a severe disability. SDTs were designed to enable families to make these provisions without reducing the person's entitlement to disability support pensions, age pensions, veteran pensions or related benefits.

Only a small number of SDTs have been established and there are substantial concerns about the effectiveness of the current arrangements. The eligibility requirements for SDTs are overly restrictive, such that many people with severe disabilities, including intellectual disabilities and disability resulting from mental illnesses, are not able to benefit from the trusts. The concessional limit on trust assets is too low and does not allow families and carers to effectively provide for the future.

The tax arrangements which currently apply to SDTs diminish their value for carers and people with disabilities. The application of capital gains tax to the sale of a beneficiary's primary residence and the high rate of tax applied to trust earnings are a particular disincentive to investing in the trusts.

The tight restriction on eligible uses of SDTs is a major shortcoming in the current arrangements. People see little point in setting aside funds if those funds cannot be used to provide the accommodation, care and support that their loved one needs to live as independently as possible.

The committee has made several focussed recommendations which will significantly improve the operation of SDTs and fulfil the original intention of assisting families that are able to make private financial provision for a member with severe disability. These recommendations can be implemented quickly through legislative changes. The committee has also made a number of wider recommendations to increase awareness of the trusts and reduce the complexity and costs of establishing and maintaining a SDT.