Mind the cap on transfers

How the $1.6 million rule applies to super balances

DIY SUPER

Monica Rule

Some SMSF members are confused as to how the $1.6 million transfer balance cap is affected when they receive their deceased spouse's or deceased parent's superannuation entitlement paid from an SMSF.

Under the new $1.6 million transfer balance cap law, a deceased spouse's superannuation entitlement, which is paid as a death benefit pension to a dependant beneficiary, will count towards the dependant's $1.6 million transfer balance cap.

The situation can be affected depending on whether the deceased member's super is in accumulation or retirement phase and whether a reversion death benefit pension is involved. A reversionary pension is a pension paid to an SMSF member that would continue to be paid to a nominated beneficiary if the member died.

If it is a reversionary death benefit pension, then it is counted 12 months after the date of the deceased member's death. The amount counted is the amount that was in the deceased's pension account on the date of death even if the pension account has grown within the 12 months.

If it is a non-reversionary pension, then it is counted when it is paid to the dependant beneficiary. The amount counted will be whatever has been accumulated in the deceased's pension account. The amount could include earnings that accrued to the death benefit pension account between the date of death and the date the pension is paid.

Under the superannuation law, a death benefit cannot remain in an SMSF if it is paid to a dependant beneficiary as a lump sum benefit. This means, a death benefit cannot be added to the dependant beneficiary's existing accumulation account or be shown under a separate accumulation account. It must be paid out of the SMSF as soon as practicable.

If the dependant beneficiary already has a pension account in retirement phase and the net value of their pension assets is $1.6 million, then unless they commute some or all of their pension account to below $1.6 million, they cannot accept any amount of the death benefit pension that will cause their transfer balance account to exceed $1.6 million.

Death benefit pension amounts that exceed the dependant's transfer balance account must be paid out as a lump sum death benefit.

Children entitled to receive a death benefit pension are children under the age of 18; aged 18 to 24 and financially dependent on the deceased; or of any age with a disability. Unless a child has a disability, a child's death benefit pension must be commuted to a lump sum and paid out when the child turns 25. A child with a permanent disability can maintain the pension until the pension is exhausted.

A death benefit pension, received by a child, also has a 12-month time frame before it is counted towards the child's modified transfer balance cap. This is based on the value of the deceased's pension assets at the time the child receives the death benefit. It is also based on whether the deceased parent was in the accumulation or retirement phase prior to their death.

If the parent was in an accumulation phase, the child can receive a death benefit pension up to the $1.6 million transfer balance cap. Any amount in excess of the cap must be paid as a lump sum death benefit. If there is more than one child, each child will be entitled to their relevant proportionate share of the $1.6 million transfer balance cap.

If both parents die, children receive a child transfer balance cap from each of their parents. The cap applies independently for each parent's death benefit.

For example, if both parents died and both had $2 million in the accumulation phase, then a child could receive a $1.6 million pension from one parent's account and another $1.6 million from the other parent's account and the combined balance of $800,000 from both accounts must be paid out as a lump sum death benefit.

Where a deceased parent had an excess transfer balance prior to their death, then the child's cap will be reduced by their parent's excess transfer amount. This will only apply if the child receives the death benefit as a pension and not if the child receives it as a lump sum death benefit.

Monica Rule is an SMSF specialist and will be running a webinar on the changes on Thursday. For information, go to www.monicarule.com.au

IF BOTH PARENTS DIE, CHILDREN RECEIVE A CHILD TRANSFER BALANCE CAP FROM EACH OF THEIR PARENTS.

THE CARVE UP

Accumulation Phase

Two children under 18

Balance: $2 million

Parent dies

- The $2 million balance would be split equally between children

Each child would be entitled to a pension of $800,000, or half each of $1.6 million $400,000 remaining in the deceased's accumulation account would need to be paid out as a lump sum death benefit. This is a $200,000 lump sum to each child

Pension Phase

One child

Balance: $4 million

Parent dies

If the parent had commenced an account based pension prior to their death and the investment earnings and capital growth of the assets supporting the pension had increased:

- The child can commence a pension with the total amount of the pension account

If the deceased parent's pension account had grown to $4 million at date of death, the deceased's child could commence a pension with $4 million.

Costa is enjoying fruity growth

YIELDHUNTER

with **Patrick Taylor**

Sometimes it is easy to just pick the obvious low-hanging fruit, and this is the case as we look to add Costa Group Holdings to our basket.

This strongly performing food and farming company has risen almost 60 per cent since its float 18 months ago on the back of rising sales, income, earnings and dividends. With a robust business model and attractive geographical positioning, it should have plenty of juice left in it yet.

Costa is principally a premium grower and supplier of citrus, tomatoes, bananas, mushrooms, berries and avocados.

It aims to provide year-round produce to meet increasing market share in domestic markets as well as branching out with increasing exposure to Asian and Europe markets, which is where we see a lot of future growth potential rooted.

Its geographical diversity and innovative approach mitigates some of the concerns that naturally apply to agricultural stocks and could offer a slice of the "dining boom" to investors who would otherwise find those risks not to their tastes.

The Victorian group is currently hitting all-time highs of $3.58. While that might not immediately seem like a bargain, the fact is that quality often comes at a price.

Despite its growing dividend, Costa now yields around 3.3 per cent and this necessitates around 5.4 per cent from capital gain. It is true the stock is above consensus target pricing, but these valuations have been aggressively chasing the price higher.

The stock has climbed almost 14 per cent in the last 6 months. And with lower debt and leverage, Costa seems likely to have its stakes raised again soon.

There is no shade being cast on its technical outlook. We can see a story dominated by a longer-term uptrend since the float.

More recently it has been working out of a medium-term consolidation running from mid-to-end of 2016 when this was broken along with the resistance ceiling at $3.

Patrick Taylor is director at Taylor Securities

COSTA GROUP HOLDINGS LTD (CGC)

Classification: food/farming

Current price: $3.58

Market capitalisation: $1.1B

Forecast EBITDA growth: 14.04%

Gross yield: 3.31%

Consensus price target: $3.45

Covering analysts: 4

Premium at current price: -3.63%

Price target trend: increasing flat

Signal time frame: monthly-weekly-daily

Trend bias: up flat long-short

INDICATORS

Short-term: positive

Medium-term: positive neutral

Long-term: positive

Recommendation: buy

Focus: dividend income & capital growth

costa fresh is our passion

SET UP NOTES

- CGC is riding a strong uptrend and is just emerging from a short-term downtrend that saw a successful test of new support at $3.20.
- Strong fundamental performance and forecasts gives added confidence at a time when they are hitting new record highs.
- The stock is currently over its consensus target price but that should not be too much of a concern as the analysts have been chasing this one up most of its listed life and these valuations have risen almost 14% in the last six months.
- CGC has high capital growth potential (which comes with some added volatility you need to be prepared for) but dividends have been increasing steadily with earnings and are forecast to continue this trend going forward.