

Pushing daisies no easy DIY feat

DIY SUPER

Monica Rule



Many self-managed superannuation fund trustees are confused about how their superannuation savings will be taxed when it is left to family members upon their death.

To put it simply, the tax treatment of superannuation death benefits depends on who it is paid to and the form in which it is paid.

The cause of most of the confusion is the interplay of two laws.

Superannuation law states which individuals can be paid a death benefit on the death of an SMSF member. Income tax law states how the death benefit will be taxed, based on who receives it, and whether the benefit is paid as a lump sum or a pension.

The two laws differ on the definition of a “dependant”.

Under superannuation law, a dependant is a spouse by marriage or a de facto partner (including same-sex partners), and a child of any age. It also includes anyone who had an interdependent relationship with the deceased.

An interdependent relationship is where two people (whether related or not) have a close personal relationship and live together and provide financial or domestic support and personal care.

Superannuation law also states that a death benefit pension can only

be paid to the deceased member’s dependant and in the case of a child it can only be to a child who is less than 18 years of age, or is aged between 18 and 25 and who was financially dependent on the deceased before their death. A child of any age with a disability is also eligible.

Under income tax law, a “death benefit dependant” can be the deceased’s spouse by marriage or a de facto partner (including same-sex partners), a child under the age of 18, or a person who is financially dependent on the deceased person before they died. It also includes a person with whom the deceased person had an interdependent relationship with just before their death.

Unlike superannuation law, the definition includes a former spouse.

A person classified as a dependant under the superannuation law can receive an SMSF member’s death benefit in accordance with the deceased’s SMSF trust deed and/or as per the deceased’s binding death benefit nomination. If an SMSF’s trust deed allows for payment of a death benefit to a non-dependant, it can only be paid via the deceased’s estate through the deceased’s legal personal representative.

The tax treatment of a death benefit is based on who receives the benefit and whether the benefit is paid as a lump sum or a pension.

If the recipient of a death benefit is classified as a death benefit dependant, and receives the benefit as a lump sum, then regardless of the components of the lump sum, the entire death benefit is tax free.

If the recipient who received the lump sum death benefit is not classi-

fied as a death benefit dependant, then the tax-free component of the lump sum will still be tax free, but the taxable component of the lump sum will attract tax at the maximum of 15 per cent plus the Medicare levy payable by the recipient.

The tax treatment of a death benefit pension depends on the age of the deceased, the age of the recipient and the components of the pension.

If the benefit is paid to a death benefit dependant under the income tax law, and either the recipient or the deceased are over the age of 60, then the tax-free and taxable components of the pension will be tax free.

If, however, both the dependant and the deceased are under the age of 60, the taxable component of the pension will be taxed at the recipient’s marginal tax rate with a 15 per cent tax offset.

I recently met an elderly SMSF trustee who was convinced that his adult son, who is not financially dependent on him, would receive all his superannuation savings (consisting of the tax-free component and taxable component) upon his death totally tax free.

The trustee thought that because his adult son was classified as a dependant under superannuation law, and therefore could receive his death benefit, he would receive the benefit tax free.

However, because his son is not a death-benefit dependant, under income tax law he will not receive the taxable component of his father’s superannuation savings tax free.

Monica Rule is an SMSF specialist and author www.monicarule.com.au

CHALLENGER LIMITED CGF

Classification Life & Health Insurance

Current price \$7.09

Market capitalisation \$4.1B

Forecast EPS growth 22%

Gross yield 4.2%

Consensus price target \$7.54

Covering analysts 16

Discount at current price 6.3%

Price target trend Increasing

Main signal time frame Long (Monthly)

Trend bias Up Flat (Weekly)

INDICATORS

Short-term Positive neutral

Medium-term Positive

Long-term Positive neutral

Recommendation Buy

SET UP NOTES

- Resilient performance during recent pullback, good momentum shown
- Dynamic support at 6.96, 6.83 and 6.57
- Structural support at 7.00 and 6.50
- Getting pushed into old resistance at 7.25, breaking that the next target is 8.00

Retirement focus a simple challenge

YIELDHUNTER

with Patrick Taylor

A wise billionaire once said “good investing is boring” and while we haven’t seen too much boring lately we are going to attempt to follow these words and find our good investing idea on the sidelines of the recent crash, rather than join the excited hunt for bargains amid the bones and blood of the past few weeks.

An easy thing to do in these moments is to get carried away with emotions and start assuming things are automatically cheap just because they are worth less than what they were in times past. That is called a downtrend and is not usually somewhere we want to be.

A favoured investment theme remains in catering towards the ageing baby boomer demographic, and while that path sometimes leads us into healthcare or aged-care property, here we are opting for finance services and investment with Challenger Ltd (CGF).

A retirement-focused investment manager, this company specialises in life insurance and annuities, as well as funds management and corporate services.

With stable and steady growth prospects, the company has a decent current dividend at 4.1 per cent, increasing to 4.5 per cent next year and with further increases to earnings and income forecast going forward.

The stock is large at a \$4 billion market cap and is well followed among analysts, with 16 given a consensus target of \$7.54. This represents a current discount of more than 6 per cent. This, combined with a plus-4 per cent dividend, gives us a running start to beat the benchmark return of 8.7 per cent.

We think \$7.54 should be a shy target, with support grinding the stock higher to work against resistance around \$7.25. If the glass ceiling breaks the next resistance is not \$7.50 but more significantly would be the 2014 highs of \$8, a tantalising prospect from where we are now.

As a trading stock, CGF tends to make long-graduating swings along its longer-term uptrend with a particularly strong correlation to the monthly time frame.

This is good news as the monthly signal is at the beginning of its inclination and should provide enough momentum to push through near-term resistance to chase its old highs. For all these reasons, and because it is a bit boring (in a good way) we believe CGF is a great prospect to beat the benchmark, and hopefully one that George Soros would approve of.

Patrick Taylor is director of Taylor Securities ptaylor@taylorsecurities.com.au



Q&A

with Nick Bruining

Q: I am a 63-year-old teacher in West State super, a fund of the State Government’s GESB arm. I also have a private super fund which has a slightly bigger balance than West State. When I retire and reach 65, I understand I am required to draw down an account-based pension. Do they consider both funds when the compulsory 5 per cent minimum of super rule is applied, or just the one fund from which the pension is drawn?

A: This, along with other questions asked,

means you need to seek advice from a suitably qualified adviser. There is no requirement for you to shift the funds from the accumulation to pension phase through an account-based pension (ABP). Indeed, they are normally interchangeable at any time.

You may elect to transfer all or part of your total benefit to an ABP and that part which is converted is required to pay benefits to a 65-year-old at 5 per cent of the account balance, reset on July 1 each year.

Your decision is complicated because West

State is an old-fashioned, untaxed scheme where no tax is deducted when money goes into the fund or on its earnings. Tax is deferred until any benefit is paid out or rolled over in a conventional, modern taxed fund.

Taxed funds pay 15 per cent tax on contributions and on earnings on the accumulation phase, but the tax rate is nil once you move into a pension.

Please email your questions to our finance experts at yourmoney@thewest.com.au. Nick Bruining is a WA financial adviser.