

Take the cash when the Reaper comes calling . . .

DIY SUPER

Monica Rule



Some things in life are not easy and some things don't make much sense. Death is an obvious case of having this unpleasant quinella.

Unfortunately, super also does not make a lot of sense. And, when you combine it with death, which sometimes also does not, it can be anything but easy.

Death can add extra levels of stress and difficulty to the life of a surviving member of a self-managed superannuation fund.

Take the situation where a husband and wife have established a self-managed superannuation fund.

After many years of successfully managing their fund and accumulating much wealth in it, the husband dies.

Under the superannuation law, the death triggers a compulsory payment situation where the deceased member's superannuation savings must be paid out as a lump sum death benefit either to a dependant or to his estate as soon as possible.

In this situation, the wife does not need the lump sum death benefit payment because she has enough income without it. She would rather the money be retained in the SMSF.

In fact, if the lump sum payment is made to her, she would simply deposit the money back into her SMSF.

So the wife, with the agreement of her accountant, records a journal entry in the SMSF's financial accounts that reflects a lump sum death benefit was paid to her and then the same money was deposited back into the SMSF account.

Now there was no problem in the wife being able to put the money back as she hasn't

exceeded her contribution caps and she also meet the work test in order to make contributions into her SMSF.

So what is the problem you may ask?

Well, the superannuation law requires the death benefit payment to be "cashed".

This means, it must be paid out of the SMSF. If assets need to be sold to fund the payment, then that is what must be done.

Once it is paid, it can then be contributed back into the SMSF if the recipient wishes to. You cannot simply make a journal entry without physically making the payment.

The Australian Taxation Office has recently issued two publications — ATOID 2015/2 and ATOID 2015/3 — that address this issue.

In these documents, the tax office explains that cashing involves an SMSF making a payment which reduces the member's benefits in the fund.

A journal entry to reduce the deceased's member account would not amount to cashing and, therefore, would not satisfy the law.

So, even if there are no tax implications, in order to comply with the superannuation law, a death benefit must be paid out. Otherwise you would have contravened the law by just making a journal entry.

It's a silly law and one that doesn't make much sense to those who are already grieving the loss of a loved one.

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DEATH CAN ADD EXTRA LEVELS OF STRESS AND DIFFICULTY TO THE LIFE OF A SURVIVING MEMBER OF A SELF-MANAGED SUPERANNUATION FUND.



Q&A

with Nick Bruining

Q: My wife and I recently made changes to our superannuation, opting to go conservative in the lead-up to retirement. In my case, I incurred a difference between the buy price and sell price of the units. My wife had

no such fee applied. Do you have any suggestions about why she didn't incur a fee?

A: The effective cost between the buy and sell price of a unit is often referred to as a buy/sell spread and supposedly reflects the transaction costs of selling or acquiring the underlying assets in the fund. It is typically charged when the switch transaction is processed overnight and that way, you lock in the investment value. Funds that don't charge a buy/sell spread often have a delayed and sometimes vague unit pricing system. One fund states that the switch will be processed within five working days. Under that arrangement, you don't really know the value of the funds

switched until after the event, which could be uncertain when you switch in a period of high volatility. In essence, we never really know the actual value of the underlying investments sold. This uncertainty can complicate decisions about switches in your asset mix, particularly amid the kind of high market volatility we are seeing right now amid the Greek and Chinese problems. A spread can be money well spent.

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

Ringling in value

Neale Prior

Australian mobile phone companies are set to enjoy increased earnings despite competition being stepped up with more generous data offerings, according to an international stockbroking group.

Morgan Stanley said in a report looking at the mobile telephony offerings of Telstra, SingTel-Optus and Vodafone that the increased competition for Australia customers was a "value war rather than a price war".

The broker said each of the players had significant network capacity even in the busiest periods and this was being offered to consumers.

"Network utilisation will not be a reason why operators would have to move away from a value mobile war to a price war," the broker said.

The report came amid fears among some market watchers that telcos could be forced to differentiate themselves with price cuts in their plans and pre-paid packages, potentially eating into revenue and earnings.

Morgan Stanley tipped industry pricing would grow around 2 per cent 3 per cent annually, with earnings before interest, tax, depreciation and amortisation growing at more than 4 per cent as costs were kept under control.