Stability would be super

Labor's tax proposal would create a new compliance burden.

"FORGIVE them Lord, for they know not what they do," said Jesus Christ, as he was about to be crucified. It's just as relevant today, when you think of the proposal by Opposition Leader Bill Shorten to crucify thousands of retirees with a new tax on super – the implications of which have obviously never occurred to anybody in the Labor Party.

Unfortunately, dreaming up impractical ideas to hit superannuants is not just the prerogative of Labor. Who could forget August 1996, when incoming Prime Minister John Howard introduced a surcharge of 15 per cent on superannuation contributions? There was no consultation with industry, and the cost of administering it was almost as much as it raised.

It was called a "surcharge" because the Coalition had promised "no new taxes", but voters weren't fooled by the terminology. It was one of the most unpopular imposts ever put upon the Australian people, was watered down in 2001, and abolished altogether in June 2005. The irony is that it is still causing work at the tax office due to defined benefit liabilities, and the amendment of old returns.

When introducing legislation to abolish the surcharge, Finance Minister Nick Minchin said: "We made clear in 1996 that the surcharge was not good policy per se, but was a necessary measure to help get the budget back in good shape ... we can now remove what was only ever seen as temporary medicine for Labor's fiscal follies."

The Gillard Labor government announced a reintroduction of the surcharge at its original rate of 15 per cent in the May 2012 budget. It was not passed by Parliament until June 2013, but was then backdated to take effect from July 2012.

But an extra tax on contributions is not enough for Labor. They now wish to tax members in pension phase as well.

Shorten has announced that, if elected, Labor would "re-introduce" a tax on the earnings of super funds, and reverse the abolition of such a tax by the Howard government in the May 2006 budget. He can't even get his facts right: there has never been a tax on the earnings of a super fund in pension phase – what the Howard government actually did was make withdrawals from super tax-free once a member reached 60.

Labor proposes a tax of 15 per cent to apply to the earnings of superannuation funds in excess of $75,000 a year per member. On the face of it, that's simple, but as ex-Tax Office Deputy Commissioner Stuart Forsyth points out, it would be a nightmare to administer in practice.

He believes Labor is suggesting "a new calculation of a notional share of the taxable income of the fund that could apply to a member's account as if it were not in pension phase. This would then be adjusted for capital gains, and then aggregated by the ATO. Any liability would somehow be advised to multiple funds, with the potential to be amended on multiple occasions."

As Forsyth points out, this would create a new and strange compliance burden, while the cost to implement it would be prohibitive both at the government level and the industry level.

Whenever I make a speech, I ask the audience what they think about super. There are those who love it, and those who hate it – but on one aspect there is a common belief. Everybody is sick of the continual changes. When the Rudd-Gillard government was in office, they made history by being the only government in Australia's history to alter the superannuation settings in every budget from the time they gained office in 2007 until their resounding defeat in 2013.

There is an overwhelming demand for superannuation to be left alone. It's time all political parties listened.

Q I am an 80-year-old self-funded retiree with a share portfolio containing shares above and below purchase price. I have accumulated losses of $100,000. Will these losses carry over to my estate or would they be lost in the event of my death?

A You have not made it clear whether the losses are realised or unrealised. If they are just paper losses at this time and the shares are post-1985, your beneficiaries will inherit them at the price you paid for them. In that case, the losses will be realised when the beneficiaries sell. If they are carry-forward losses that have actually occurred, they will be lost on death.

Q My husband had his life insurance policy within our self-managed super fund. He passed away recently and the benefit was paid into the super account tax-free. I am receiving a pension income from this benefit, which is being taxed. I am 56 years old. Will this income always be taxable or, when I turn 60, will that cease?

A The income should be taxable now less a 15 per cent rebate – when you turn 60 it should be tax-free.

Noel Whittaker is the author of *Making Money Made Simple* and numerous other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making financial decisions. Email: noelwhit@gmail.com.

Overcoming your irrational inner self

By **DAVID POTTS**

WHEN you buy a Lotto ticket, do you choose your own numbers? That's why you don't win.

All right, having the odds stacked against you doesn't help, but there's no advantage over accepting random numbers. Sorry, you're just as likely to lose with either method.

It's not only Lotto players who are deluding themselves. A flaw well known to behavioural scientists when it comes to investing is what the QUT Business School calls the "illusion of control". Its partner-in-crime is "overconfidence bias".

By which it means we think we're in control when we're not. Does that remind you of something? No, I meant the sharemarket. If you think you're in control you'll underestimate the risks, a mistake made worse by tending to plunge into a single stock instead of diversifying.

That we are our own worst enemies when it comes to investing brings to mind a talk to Morningstar's annual super strategy day by Kerr Neilson, the billionaire fund manager who founded Platinum and is the closest we have to the legendary investor Warren Buffett.

For him price is everything. He remembers how "time and again I'd hear you could rely on companies supplying food because people have to eat. Yes, but at what price?" I did say he's a fund manager.

But you can see his point. When buying a car, the first thing you ask is what it will cost. Same for shares: pay over the top as an investment and you're buying a crock, no matter how good the company is.

Fortunately he has some tips, again correcting our irrational inner selves, about finding the right price.

A big boo-boo is "chasing yesterday's story". By the time you hop on the bandwagon it's too late because "invariably there is not a lot more prospect to make money out of". The stocks nobody wants are where you'll find any gems.

Anything out of favour is always oversold.

"Any grandiose problems the market has already adjusted for. It's no longer time to fret about it."

Neilson has also published a little booklet called *Curious Investor Behaviour*. I warn you, it gets personal. But tell you what, a mass mailout of that would do more to reduce our reliance on the pension than poor old Dr Karl spruiking the government's Inter-Generational Report.

Experiments have proved that the pain of a loss is felt twice as strongly as the pleasure of a profit – the source of many irrational biases.

Don't believe it? Then compare how hard you'd kick yourself for misplacing $100 with your more constrained relief at finding it again.

And so we cling to losses on an investment hoping it'll bounce back one day. Even in that unlikely event, having probably paid too much for it initially, think what the money could have been doing somewhere better.

Mind you, selling winning investments too early is probably as common a mistake, though at least that's money not lost – just not made. Another foible is taking on board information that confirms a belief and subconsciously downplaying that which undermines it – all elements of self-deception, I'm afraid.

These are the more controllable irrational biases. It's the subtle ones that can trap you.

One is what psychologists call "framing", which is not seeing the whole picture because of how it's presented. For example, how a question is framed can mean taking something at face value without realising it.

In a 1984 study, physicians were asked to choose between two programs proposed for handling an epidemic that was expected to kill 600. Option A would save 200. Option B would mean two-thirds die.

Which would you choose? Oh dear, glad I'm not your patient. But then I'm not sure about those physicians either, since 72 per cent chose Option A.

How come? Because it was a trick question – they were supposed to see that both had the same answer (two-thirds dying from 600 is 400, leaving 200 saved).

Framing is a salesman's modus operandi at property seminars and the like. Even if the descriptions and figures that are presented are true, it's the ones that aren't which you should worry about.