BUSINESS

Each week, financial adviser and international bestselling author Noel Whittaker answers your questions.
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Ask Noel

Noel Whittaker

MY wife and I, both in our 80s, run our self-managed super fund and at present we both have more than $1.6 million in the fund. Both are in pension mode. There is one bank account attached to the fund.

We are now required to transfer above $1.6 million to individual accumulation accounts. The question is how is the bank account allocated to what will then be three accounts?

The simple solution is to leave your fund as it is with the assets unsegregated. Then you can keep the one bank account and all that needs to be done at the end of the financial year is to have an auditor prepare a certificate stating the asset proportion. I assume you have expert advice about your fund administration – there are substantial penalties for getting it wrong.

Is it better to put money into super or pay off your own home at the moment?

The great benefit of super is that in some cases, as in salary sacrifice, you can contribute with pre-tax dollars. It is also one of the few assets that can't be touched if you go bankrupt. But the price is lack of access until you reach your preservation age, which may be as much as 60. If you are young, my advice is to focus on paying off your home as a first step and rely on the employer superannuation contributions. You can always change tack as you get older.

I have an investment property that I am selling. Capital gains tax (CGT) will apply to the proceeds. If settlement of the property was scheduled for on or after July 1, apart from the obvious, I suspect, of deferring the payment of CGT for 12 months, are there any disadvantages in adopting this policy?

The only flaw in your strategy is that the effective date for capital gains tax purposes is the date of the contract not the date of settlement. Therefore, if you wish to push the date of disposal to the next financial year you would need to ensure the contract is signed after June 30.

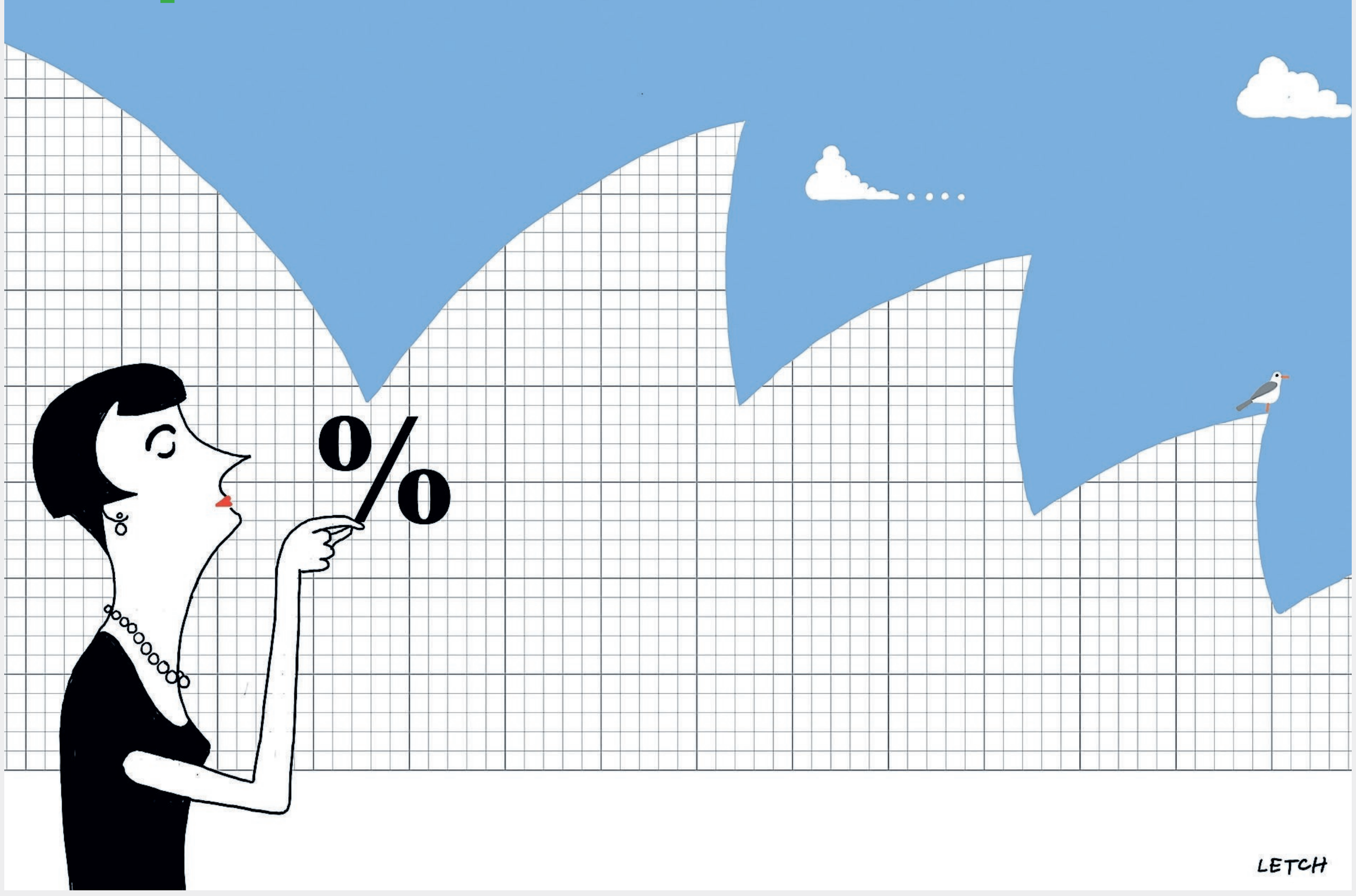
Can you please explain how the Government Guarantee for bank savings up to $250,000 works and what accounts and entities are covered? In what circumstances would this guarantee be used and is it reliable to get 100 per cent of your money back in a timely period? How careful do you think consumers should be about not having more than $250,000 in any one bank/credit union, and is it worth the effort and security to spread funds across different entities?

The Australian government has guaranteed deposits up to $250,000 in Authorised Deposit-taking Institutions (ADIs) such as banks, building societies and credit unions. This means that this money is guaranteed if anything happens to the ADI. The cap applies per person and per ADI.

Just bear in mind that if a bank went broke the shareholders would be the last to be paid. This means the shares in a bank that did go broke would become worthless – imagine the effect on the stock market and everybody's superannuation if that happened. In my mind a much bigger risk is leaving too much money in cash or term deposits where its value is being continually eroded by inflation and often by income tax.

Noel Whittaker is the author of *Making Money Made Simple* and numerous other books on personal finance.

The Explainer



How would rising interest rates affect property prices?

IF interest rates start to increase, do you expect any change in property prices in the short to medium term?

Any increase in interest rates would mean mortgage repayments would rise, putting pressure on household budgets; also, people buying properties would find it harder to qualify for a loan.

These factors combined would put downward pressure on property but, of course, the effect on an individual property would depend on its location and price range.

The pressure would be less for investors as the interest on their loans is tax-deductible.

Beware of those dividend traps and capital killers

Super & Funds

John Collett

INVESTORS love the shares of big dividend-paying companies, but they could be leaving themselves exposed to the "dividend trap".

When the cash rate was cut to 3 per cent at the end of 2012, the dividend buying stepped up a notch and has continued as the cash rate has been lowered even further.

Despite warnings that the hunger for yield is driving up the share prices of our biggest listed companies to unsustainable levels and their prices would have to fall, those fears have not been realised.

But whether some of the biggest dividend payers can maintain their dividends is another matter.

Telstra and the big banks have dividends that are fully franked, making the dividends particularly valuable in the hands of investors paying low or zero rates of income tax.

Company tax of 30 per cent is paid on profits and the dividends are paid to shareholders from profits that have already been taxed. To avoid double taxation, shareholders get the benefit of franking credits, which they offset against their income tax or have refunded.

DIY super fund investors pay much lower than 30 per cent tax – 15 per cent if still working and zero for most retirees.

That means that between 15 and 30 per cent of the franking credit is, in effect, refunded to DIY super fund investors.

But the dividend strategy can go wrong, says Dr Don Hamson, managing director of Plato Investment Management.

He runs the Plato Australian Shares Income Fund, which invests in dividend-paying stocks. It's designed for retirees and has an impressive track record.

"Screening is vitally important when chasing yield," he says. "You are trying to generate higher yield than the market while avoiding the dividend traps."

Elio D'Amato, director of research and education at Lincoln Indicators, says investors seeking income often have their focus "welded" onto the dividend yield, but it's important to remember the dividend yield is a function of price.

"As the share price goes down, the yield goes up and vice versa and income investors need to avoid the 'capital killers'," he says.

Sometimes a big drop in profits or a loss can see dividend payments suspended. For example, Metcash, which owns IGA supermarkets, has not paid a dividend for two years.

Metcash flagged in late 2014 that its earnings were on the slide. Its share price fell by about two-thirds over the subsequent 18 months.

Origin Energy and Santos cut their dividends to zero, while Oil Search cut its dividend by half with the companies hit by over-supply of gas in the export market.

And dividends can be switched on and off – that's particularly the case for miners whose fortunes are tied to commodity prices.

Last year, BHP Billiton cut its dividend by 80 per cent, only to increase its interim dividend by 144 per cent this year.