BUSINESS

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

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Ask Noel

Noel Whittaker

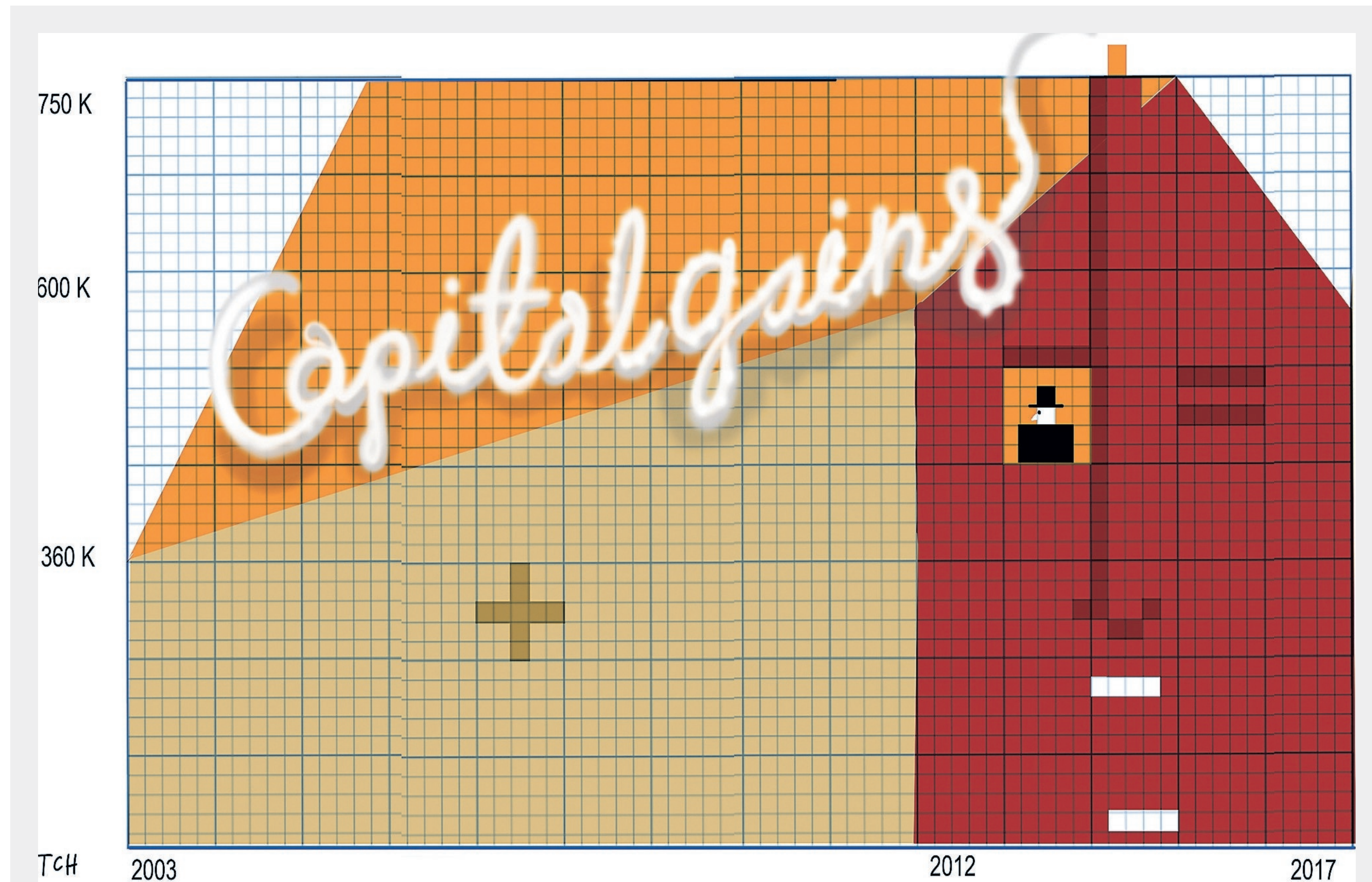
MY wife and I are trustees of our self-managed super fund and are the only two members. The fund is in pension mode and we pay our pensions in lump sums before June 30. If the fund does not have enough cash to cover our minimum pensions, can we transfer shares in specie to ourselves in lieu? We have had conflicting advice on this matter.

Yes, in-specie transfer of shares out of the fund is allowed. They are treated as lump-sum payments which may have repercussions for Centrelink purposes because they may consider them a partial commutation – they do count towards the minimum pension requirement.

My mother has entered an aged care facility and all of her pension is going towards her aged care fees. She also has to contribute a small amount from her savings under the means test rule. I have calculated that her savings account will be depleted of funds in about five years' time. If family members decide to contribute to her aged care costs, will this have any impact on her pension?

The amount your mother pays towards her cost of care will reduce as her assets/income reduce – cold comfort I know.

If the children contribute money it may be a self-defeating exercise. By paying for the ongoing fees there would be no pension or aged care detriment (but there would also be no benefit, the costs would remain as they are). If the children contribute by paying towards the lump-sum accommodation payment (the refundable accommodation deposit or RAD) it won't affect your mother's pension but it will increase her cost of care as the RAD is an assessable asset for the means-tested care fee. However, the interest charge (currently 5.78 per cent) on any unpaid RAD (known as the daily accommodation payment) would reduce, so the total cost would be less. If you simply put a lump sum of money in her bank account there can be negative consequences on both pension and the cost of aged care. It's complicated. She should get advice from an age care specialist.



How will CGT gains be calculated?

I have a house I purchased in 2003 for $360,000 which was rented until 2012. Initially it was negatively geared but became positively geared in about 2009. My wife and I moved into the house in 2012. It is our principal place of residence. When we moved in 2012 it was valued at $600,000. Since then its value has increased to $750,000. We are putting it on the market and hope to receive $750,000 from the transaction. How will the capital gains tax (CGT) be calculated?

THE EXPLAINER

There is no reset of the cost base once you move into a property that originally started out as a rental. You will be required to calculate the capital gain over the whole period you have owned it and then apportion that gain between the days it was covered by your main residence exemption and the days it was not. Section 110-25(4) of the Income Tax Act allows you to include in the cost base everything associated with the property that you have not already claimed a tax deduction for. This includes the time you were living there. As a result, the costs associated with the period you lived in it count proportionally towards reducing CGT on the period when it was rented and so exposed to CGT. Section 110-25(4) allows you to even increase the cost base by such items as cleaning materials, lawn mower fuel, light globes, and of course interest, rates and insurance provided no tax deduction has been claimed for them previously. Make sure you add in improvements and buying and selling costs to the cost base, and also add back any building depreciation you claimed while it was a rental.

Can you withdraw funds from a SMSF in the accumulation phase if you have reached your preservation age? If you are over 60 is it taxable?

Once you reach your preservation age, and have satisfied a condition of release, you can make withdrawals from superannuation in either the accumulation or the pension phase. If you are selling assets to fund the withdrawal be wary of capital gains tax as sometimes it may be advantageous to switch to the pension phase before disposing of assets within the fund.

After 25 years, super system is yet to reach maturity

Super & Funds

John Collett

AS well as Australia's economy reaching its 26th year of continuous expansion, the longest run of uninterrupted growth in the developed world, this year also marks the 25th anniversary of the introduction of compulsory superannuation.

The Superannuation Guarantee commenced on July 1, 1992, at 3 per cent. It is now 9.5 per cent. Including voluntary contributions, the nation's retirement savings pot stands at more than $2 trillion.

Australia's unique retirement savings system has three components – the three pillars of a taxpayer-funded age pension, compulsory super and tax incentives for voluntary contributions.

The system is a good one, but it is yet to mature. Older workers have only had the benefit of compulsory super since 1992 with low contribution rates for most of the time. That means most older workers will have a high reliance on the age pension in retirement for a long time to come.

So how is the system doing relative to other rich countries?

A report by Paul Murphy from Vanguard with Dr Deborah Ralston from Monash University and Michael Rice and Nathan Bonarius of Rice Warner Actuaries, shows that in 2014 Australia had a replacement rate of pre-retirement income of about 58 per cent for men and 53 per cent for women.

That's modest when compared to the replacement rate for OECD member countries of 63 per cent of pre-retirement income.

But the authors point out that the super system will not reach maturity until at least the mid-2030s. That is when those on the cusp of retirement will have been receiving compulsory super for the whole of their working lives.

When the Australian system matures the authors of the paper expect our system will meet or exceed the OECD benchmark.

That's good, but there are things that can be done to boost super savings even more.

Under the Coalition government, the super guarantee will rise to 12 per cent by 2025. However, the super guarantee should be put on a path to increase to 15 per cent of salaries as envisioned by Paul Keating, the architect of compulsory super.

The rule that super does not have to be paid to employees who earn less than $450 a month should be revisited, with automation of pay systems, it's just no longer a red-tape issue for small employers. That would benefit the growing number of people who have part-time and casual roles.

Costs across the super system are too high. There should be a single super account that follows a person from employer to employer as recommended by the Productivity Commission. That would help reduce the number of multiple super accounts and reduce costs.

Smaller super funds should merge, as urged by the Australian Prudential Regulation Authority, to achieve greater economies of scale and reduce costs for members.