BUSINESS

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

Noel Whittaker

I am 70, single on a full pension, have $200,000 in superannuation from which I receive a $19,000 annual pension. I have about $10,000 in cash in case of emergency. I own my home worth $1.2 million. I am using my superannuation for holidays, small renovations to the house and I mentioned to my financial adviser that instead of taking money from my super, which is earning about 9 per cent, that it might be advisable to have a line of credit, paying it all off when I sell my house. If I used $100,000 over 15 years, I would lose about 8 per cent of my house if rates stay at about 6.5 per cent. My financial adviser thought this was not a good idea. However, that might be because his fees would reduce!

In my view you are too young for a reverse mortgage – and there is no guarantee that your super will continue to earn 9 per cent and the reverse mortgage rate stay at 6.5 per cent. I think you are better to maintain the status quo, and think about a reverse mortgage when your superannuation has run out. Also, you may find as you get older, that downsizing your home, or even moving to a retirement village, becomes a better option than staying in it.

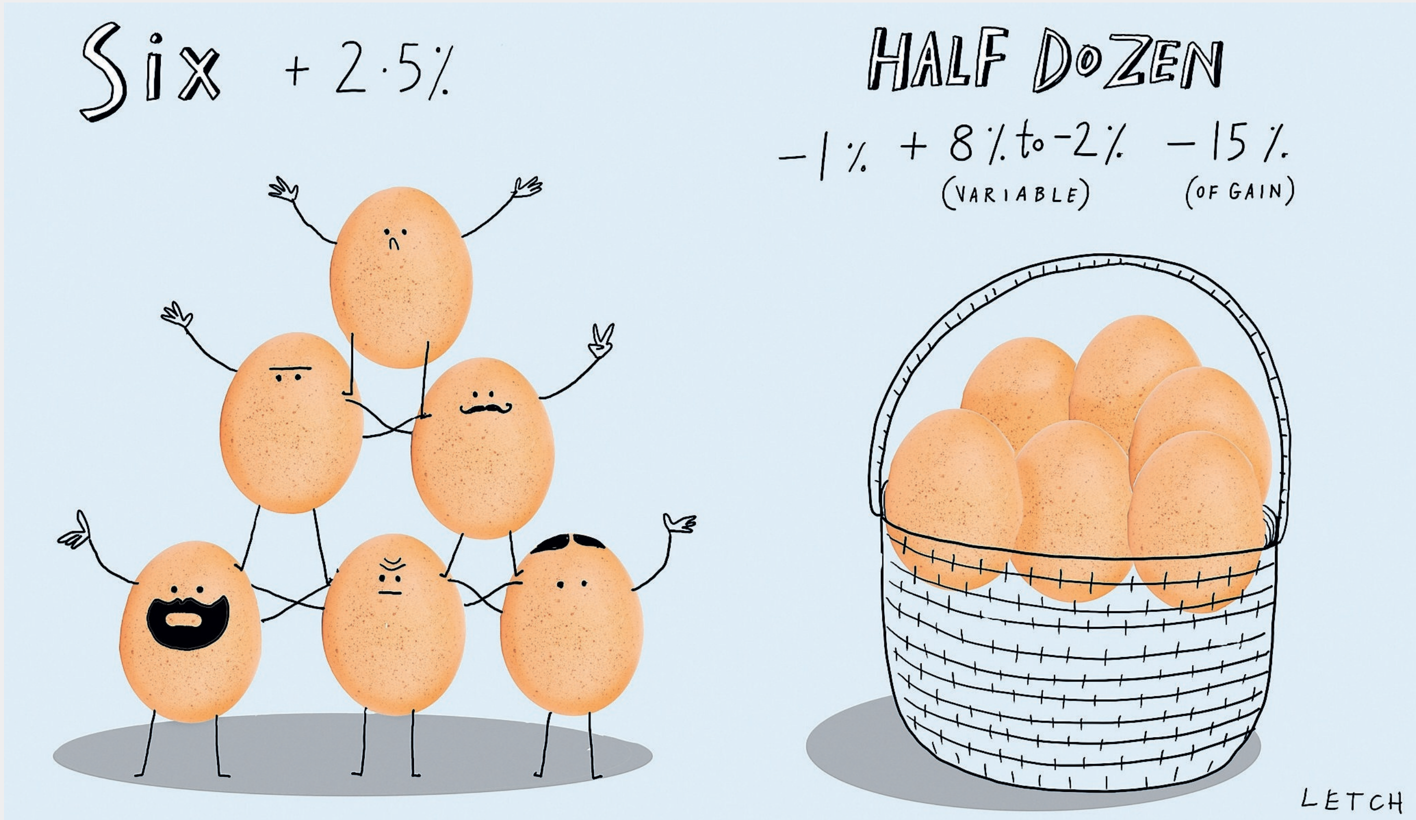
I am thinking of renting out my home and moving in with my mum. I also have two units that I pay land tax on, will I have to pay land tax and capital gains tax on my home? I have lived in my home for 10 years.

There is no capital gains tax payable until an asset is disposed of so moving out and retaining the property will certainly not trigger CGT. You can also be absent from the home for up to six years without it losing its CGT exempt status provided you don't claim any other home as your principal residence during that time. Once you move out it will almost certainly be liable for land tax. The amount of this will depend on where you live and the combined value of your properties.

My elderly parents live in a regional area and would like to relocate to the city, to be near my brother and me and our families. They own their own home and my father has a super income stream and a small part pension for my mother. The sale of their house will leave them well short of purchasing even a small property here. What is the best way my brother and I could go about contributing to their purchase of a house? My parents will not consider another mortgage and would not be comfortable with receiving money from their children unless we can show them we will have some sort of benefit down the track (that is less important to my brother and myself than having them here, happy and settled).

As I see it there are two options – you and your brother could buy a property, take out a mortgage if necessary, and charge your parents rent. It would need to be a fair market rent but could be on the low side in view of the fact they would be good tenants, and you would have no vacancies. The drawback is capital gains tax on sale.

The other option would be for you to take out a loan if necessary against your own properties and give your parents an interest-free loan or gift to enable them to buy a place of their own. I prefer the second option because, if your parents rented, the proceeds of their home would be a financial asset and would almost certainly cause them to lose at least part of their pension. It's important you have open communication along the way, and take advice as well in view of the estate planning and Centrelink implications involved.



Since when does a bank account beat super?

I was shocked to read a recent column of yours where a female pensioner sought advice on investing a legacy of $20,000. You told her not to put it in super but instead use a bank account "that pays reasonable interest". Why would you do that when bank term deposits for that amount might earn 2.5 per cent, whereas in super she would get 6 to 8 per cent. She would still have access to her funds – and not be taxed on withdrawals. I am not very financially knowledgeable – maybe there is something I am missing?

The Explainer

It's important to understand the difference between what a fund has done, and what it might do in the future. Certainly, most superannuation funds have done better than 8 per cent in the past 12 months, but that is because share markets around the world have been doing well. However, if markets fall, superannuation returns could become low or even negative for a period before recovering to positive territory.

Also, if the money was placed in superannuation there would be taxes on its earnings inside the fund of 15 per cent, annual account keeping fees, and probably 1 per cent a year management fees.

In view of her age, and the relatively small sum involved, I still believe that a bank account is the best investment for her in her situation.