UNDERSTANDING SERIES

Version: 1.06

The Understanding Series provides information about strategies, risks, concepts and product types.

Important: This document contains general information about the benefits, costs and risks associated with certain product classes and strategies. It has been prepared without taking into account your objectives, financial situation or needs. Because of this you should, before acting on any advice in this document, consider whether it is appropriate to your personal circumstances.

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Insurance – Term Life Insurance

Term Life insurance protects your family and dependants by paying a lump sum if you die, or in some cases, the benefit can be paid earlier if you are diagnosed as being terminally ill.

Benefits

It is important to work out individually what you need to protect and how much cover you need. But the lump sum payment can be used for goals such as:

- cover the cost of funeral expenses
- repay your mortgage, credit card and other debts so you can pass on the full value of assets to your dependants
- generate an ongoing income stream to help your family to meet their future living expenses and maintain their lifestyle
- set money aside for future education costs for your children or grandchildren
- enable your estate to treat your beneficiaries equitably without the need to sell particular assets
- cover other expenses such as childcare and housekeeping.

Without insurance, your family or dependants may need to run down their savings, sell assets, and/or rely on family or the Department of Human Services for assistance. They may also find it difficult to maintain their standard of living.

How it works

Life insurance can be owned either in your own name or within your superannuation fund.

Self ownership

Owning your life insurance in your own name means you pay the premium from your cash flow and the proceeds are paid to your nominated beneficiary or to your estate. Self ownership gives you control over the policy, the right to nominate who receives the proceeds and the right to cancel if the need arises. The premiums for self owned life insurance are not tax deductible and the benefits paid are tax-free.

This may be suitable for you if you have the cash flow available to pay the premium and you want to ensure the proceeds will be tax-free.

Superannuation ownership

Alternatively you can apply for cover within your superannuation fund. This allows the premium to be paid by making contributions to superannuation or simply be deducted from your superannuation account balance so it does not affect your cash flow. The premium is a deductible expense to your superannuation fund and can reduce the tax payable on contributions and investment income. The benefit to you will depend on your superannuation fund.

In the event of your death, the insurance proceeds will be paid into your superannuation fund and form part of your account balance. The trustees of your fund will then pay a death benefit to your beneficiaries or estate. You may be able to make a binding nomination to ensure the trustees pay in accordance with your wishes. However, restrictions do apply as to who can be nominated as a beneficiary. Also, tax may be payable on the death benefit depending on how the benefit is paid (lump sum or pension), who the beneficiary is and the age of the beneficiary. This can make superannuation ownership a less tax-effective method of policy ownership.

This may be suitable for you if you do not have the cash flow to make the premium payments, receive contributions from an employer into superannuation, are eligible to make salary sacrifice contributions, have a spouse on a low income or are eligible for co-contributions, or are self-employed. Tax concessions can reduce the cost of insurance and may enable certain beneficiaries to receive all or some of the death benefit as a tax-effective income stream. If additional contributions are made into superannuation to cover premiums it is important to ensure you do not exceed the limits on how much can be contributed.

The total amount of superannuation monies used to start pensions will be capped at $1.6 million. A greater amount may be transferred where you have more than one beneficiary eligible to receive your benefit in the form of a pension. All superannuation income streams are assessed against the transfer balance cap regardless of when it first commenced

Risks and Consequences

- For self owned life cover, if you do not nominate a beneficiary, the proceeds will form part of your estate and will be distributed in accordance with your Will. Directing proceeds to your estate may provide the opportunity to use one or more testamentary trusts to provide a tax-effective future income for dependants particularly if you have young children or grandchildren.
- Funding the premiums from your superannuation balance will reduce the growth of your retirement savings unless you make additional contributions to offset the premiums. These contributions will count towards your contribution caps.
- Where your sum insured is large, not all of the benefit may be able to be taken as a tax-effective income stream by your beneficiaries.
- No death benefit will be paid if death is due to suicide in the first 13 months or if you do not fully disclose all required information.
- To be eligible for payment as ‘terminally ill’ a doctor must certify you have less than a set number of months to live, usually 12 or 24 months.
- It’s important to seek professional legal advice and consider your overall estate planning position to ensure your wishes are carried out upon your death.
- You should always carefully read the Product Disclosure Statement (PDS) and policy document for your selected insurance policy and keep these documents in a safe place.

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Insurance – Total and Permanent Disablement (TPD) Insurance

TPD insurance protects you and your family by paying a lump sum payment if you suffer a total and permanent disability and are permanently unable to work.

Benefits

It is important to work out individually what you need to protect and how much cover you need. But the lump sum payment can be used for goals such as:

- reduce or clear your home loan and other debts
- cover medical and rehabilitation expenses
- generate on ongoing income stream to help you to meet your future living expenses
- employ paid carers
- pay for modifications to your home or vehicle
- set money aside for future education costs for your children
- protect your long term wealth accumulation strategy.

Without insurance, you and your family or dependants may need to run down savings, sell assets, and/or rely on family or the Department of Human Services for assistance. You may find it difficult to maintain your standard of living or pay for the care and medical assistance you need. This can place extra stress on you.

How it works

To receive a TPD payment, you must meet the definition in the insurance policy you select. Some policies require that you are unlikely or unable to work in any occupation for which you are 'reasonably suited by training, education or experience' while other policies may provide cover if you are permanently unable to work in your own occupation.

Generally policy definitions relate to your inability to work, but you may also obtain policies that cover other modified definitions. These might trigger payment if you lose limbs or your sight or are unable to undertake activities of daily living unassisted. This may provide cover for homemakers or others who are not working.

TPD cover under an 'any' occupation definition is less expensive than cover under an 'own' occupation policy but it could be more difficult to meet the requirements for a successful payment because the insurer may take into account other training and experience you may have when determining the extent of your inability to work.

The 'any' occupation definition may be suitable for you if you want to own the cover within your superannuation fund, you have only ever worked in the one occupation or you want the less expensive option.

The 'own' occupation option may be suitable for you if you have the cash flow to afford the higher premium and want the more flexible definition, or you have had a varied occupation history.

Stand-alone TPD Cover

You can buy TPD insurance as a stand-alone policy that includes just TPD cover and no death cover.

Linked TPD Cover

You can also purchase your cover so that it is 'linked' to your Term Life or Trauma Insurance. With 'linked' covers, if you make a TPD (or Trauma) claim and the claim is paid, the other two cover levels may reduce by this amount. Linking your covers in this way can reduce the cost of your TPD insurance. Most policies include 'buy-back' options to regain the reduced cover amount after a period of time has elapsed.

Policy Ownership

TPD insurance can be owned either in your own name or within your superannuation fund.

Self ownership
Owning your TPD insurance in your own name means you pay the premium from your cash flow. The premiums for self owned TPD insurance are not tax deductible. In the event of a successful claim, the proceeds will be paid to you as a tax-free lump sum.

This may be suitable if you have the cash flow available to pay the premium, you want the 'own' occupation TPD definition, or you want to ensure the proceeds will be a tax-free lump sum.

Superannuation ownership
Alternatively you can apply for cover within your superannuation fund. This allows the premium to be paid by making contributions to superannuation or simply be deducted from your superannuation account balance so it does not affect your cash flow. The premium is a deductible expense to your superannuation fund and can reduce the tax payable on contributions and investment income.

In the event of your total and permanent disablement, the insurance proceeds will be paid into your superannuation fund and form part of your account balance. You will need to meet the superannuation condition of release ('permanent incapacity') to access the proceeds. This may restrict access to your benefits compared to a self-owned policy. If you are under age 60 tax may be payable on amounts you take out of superannuation.

Superannuation ownership may be suitable for you if you:

- do not have the cash flow to make the premium payments,
- receive contributions from an employer into superannuation,
- are eligible to make salary sacrifice contributions,
- are eligible to make personal deductible contributions, or
- are eligible for co-contributions.

Importantly, only 'any occupation' cover is available in superannuation.

Tax concessions can reduce the cost of insurance. If additional contributions are made into superannuation to cover premiums it is important to ensure you do not exceed the limits on how much can be contributed.

The total amount of superannuation monies used to start pensions will be capped at $1.6 million. You can retain excess amounts in your accumulation accounts where tax of up to 15% continues to apply.

Risks and Consequences

- Funding the premiums from your superannuation balance will reduce the growth of your retirement savings unless you make additional contributions to offset the premiums. These contributions will count towards your contribution caps.
- If your policy is held within your superannuation fund you may not be able to transfer all of the benefit to a tax-effective income stream.
- Benefit payment is usually excluded if you become totally and permanently disabled as a result of war (or act of war) or a self-inflicted act.
- You should always carefully read the Product Disclosure Statement (PDS) and policy document for your selected insurance policy and keep these documents in a safe place.

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Insurance – Trauma (or Critical Illness) Insurance

Trauma (or Critical Illness) insurance protects you by paying a lump sum if you suffer a major illness or injury such as cancer, heart attack or stroke.

Benefits

It is important to work out individually what you need to protect and how much cover you need. The lump sum payment can be used for goals such as:

- paying for your treatment and care
- gaining access to the full range of rehabilitation services
- relieving financial pressure by reducing debt
- allowing your spouse to take time off work to be with you or look after the children
- employing a carer, nanny or home help
- funding the gap between what you earn and the 75% cover from income protection, and
- allowing flexibility to amend your lifestyle or spend more time with family.

Without insurance, you and your family or dependants may need to run down savings, sell assets, and/or rely on family or the Department of Human Services for assistance. You may find it difficult to maintain your standard of living or pay for the care and medical assistance you need. This can place extra stress on your recovery.

How it works

What conditions are covered?

The actual conditions covered vary between insurers but generally include:

- blood disorders including aplastic anaemia and medically acquired HIV
- cancer
- heart conditions including heart attack and coronary artery bypass surgery
- neurological conditions including multiple sclerosis and stroke
- permanent conditions such as blindness and loss of limbs
- organ disorders including chronic kidney and major organ transplant.

For a trauma claim to be successful the diagnosis must meet the policy definition of the condition as outlined in the insurance contract. For example, it is not sufficient to be diagnosed as having cancer. You must meet the definition in terms of type and severity.

Stand-alone Trauma Cover

You can buy Trauma insurance as a stand-alone policy that includes just trauma cover and no death or total and permanent disability (TPD) cover. These products have a ‘survival period’ (generally 14 days) where only a nominal benefit is payable if you do not survive this period.

Linked Trauma Cover

You can also purchase your cover so that it is ‘linked’ to your death or TPD insurance. With ‘linked’ covers, if you make a Trauma claim and the claim is paid, the other cover levels will reduce by this amount. Linking your cover in this way can reduce the cost of your trauma insurance. Most policies include ‘buy-back’ options to regain the reduced cover amount after a period of time has elapsed.

Child Trauma Cover

When a child suffers a serious illness during their childhood, the effects can be devastating for the family's financial security. Child Trauma cover can be added to your policy to pay a lump sum to help with medical costs and gives the flexibility to afford time off work so you can be with your child.

Policy ownership

Trauma insurance is usually owned in your own name. The premium is not tax deductible and the proceeds from a successful claim are paid directly to you as a tax-free lump sum.

Trauma insurance is not available through superannuation.

Risks and Consequences

- You will not be able to claim a trauma benefit if you suffer certain conditions within a certain period (usually 3 months) from the date the policy commences or you do not fully disclose the required information.
- You should always carefully read the Product Disclosure Statement (PDS) and policy document for your selected insurance policy and keep these documents in a safe place.

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Insurance – Income Protection Insurance

Income Protection Insurance protects you by paying an ongoing income if you are unable to work due to illness or injury.

Benefits

Income protection cover pays an ongoing monthly benefit to protect:

- your lifestyle by replacing your lost salary so you can continue to meet your living expenses and debt repayments, and
- your wealth by reducing or removing the need to sell assets to generate cash.

Without insurance, you may need to run down your savings, sell assets, and/or rely on family or the Department of Human Services for assistance. You may find it difficult to maintain your standard of living or pay for the care and medical assistance you need. This can place extra stress on your recovery.

How it works

You can usually apply for cover of up to 75% of your earnings. For business owners this is income after business expenses (which can be protected as well) but before tax. You may also be able to have an additional amount paid as contributions into your superannuation account and other ancillary benefits to help with your recovery.

The payments are taxable income but tax may not be withheld, so you should seek tax advice and make sure you set aside money to pay your tax liabilities if this is the case. If paid through superannuation, tax is usually deducted from each payment to help you manage this obligation.

The amount you receive may also be reduced if you receive payments from sick leave, social security, workers compensation or other legislative sources.

Agreed Value or Indemnity

You can obtain your income protection cover under an 'Agreed Value' or 'Indemnity' policy.

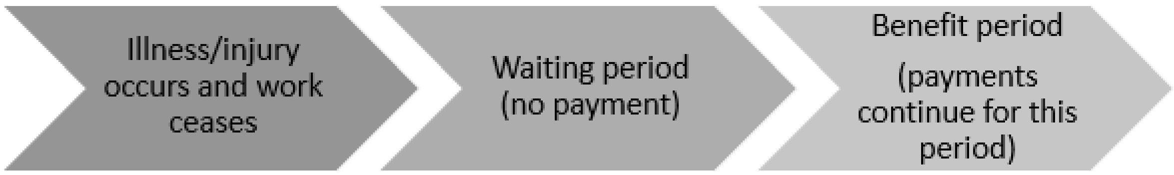
Under an Agreed Value policy, you will receive the agreed monthly benefit at the time of a successful claim, regardless of the amount you are earning at that time. With an Agreed Value policy you are required to provide proof of income at the time you apply for cover. This may suit you if your income fluctuates over time, you are able to substantiate your income and want peace of mind at time of claim.

With an Indemnity' policy, the amount you receive at the time of a successful claim will be assessed on the basis of your earnings in the 12 months prior to the disability. You will need to provide proof of income at time of claim and if your income has reduced you may receive less than expected. This may suit you if you have a stable income and are likely to be able to easily substantiate your income at the time of claim, your occupation does not allow an Agreed value policy, or you have only recently established your business and do not have two years of financial evidence available. The premium for an Indemnity policy is less expensive than an Agreed Value.

Waiting and Benefit Periods

In the event of a successful claim, benefit payments do not start immediately; a waiting period will apply during which no benefit is payable. The waiting period can be as short as 14 days or as long as two years. When choosing a waiting period, it's important to take into account any sick leave and related benefits provided by your employer. The shorter the waiting period, the higher the premium.

The maximum period of time that payments continue is called the benefit period. A range of benefit periods are available - some as short as one year, with the longest continuing through to your 65th or 70th birthday. In general the longer the benefit period, the higher the premium.



Policy Ownership

Income Protection Insurance can be owned either in your own name or within your superannuation fund.

Self ownership
Owning the policy in your own name may allow you to better tailor the cover to suit your individual requirements (e.g. to obtain more comprehensive benefits and ancillary benefits). With self owned cover, you pay the premium from your cash flow. The premiums are tax deductible to you and benefits that you receive in the event of a successful claim are treated as assessable income and taxed at your marginal tax rate.

Superannuation ownership
You may also be able to purchase your cover in your superannuation fund. This allows the premium to be paid by making contributions to superannuation or simply be deducted from your superannuation account balance so it does not affect your cash flow. The premium is a deductible expense to your superannuation fund and can reduce the tax payable on contributions and investment income. The benefit to you will depend on your superannuation fund.

If additional contributions are made into superannuation to cover premiums it is important to ensure you do not exceed the limits on how much can be contributed.

The proceeds in the event of a successful claim are paid from your superannuation fund as a temporary incapacity benefit and will be assessable income that is taxed at your marginal tax rate.

In some circumstances, even if an insurer would otherwise pay a benefit to your superannuation fund, they may not be able to do so unless a 'condition of release' is met. One example is if you are not gainfully employed at the onset of the illness and injury, and another is if you reduce working hours but do not fully cease gainful employment including paid leave such as sick leave.

For business owners it may be appropriate for the business to own the cover. This ensures any claim proceeds are paid directly to the business so it can distribute the funds accordingly.

Optional benefits

Income Protection policies may offer important options including:

- an Increasing Claims option that ensures benefit payments are indexed in line with inflation
- a Superannuation Cover option that allows you to have contributions made to your superannuation fund (above the level of salary cover)
- other ancillary and rehabilitation benefits.

Risks and Consequences

- Funding the premiums from your superannuation balance will reduce the growth of your retirement savings unless you make additional contributions to offset the premiums. These contributions will count towards your contribution caps.
- Benefits are paid monthly in arrears so your first payment would be received one month after the end of your waiting period.
- Benefit payment is usually excluded if you suffer sickness or injury as a result of war (or an act of war) or a self-inflicted act.
- You should always carefully read the Product Disclosure Statement (PDS) and policy document for your selected insurance policy and keep these documents in a safe place.

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Business Insurance – Business Expenses Insurance

Business Expenses Insurance protects you by reimbursing you or your business for the fixed business expenses that continue to be incurred while you are unable to work due to illness or injury.

Benefits

If you are self-employed or in a small partnership, your extended absence from the business through sickness or injury can have a major impact on the business' ongoing viability, and the financial security of your family.

Business Expenses Insurance provides a monthly benefit that can be used to:
- keep on top of your business expenses, and/or
- ensure you have a saleable asset if you are unable to return to work.

This can also protect your wealth as you will be less likely to have to use your own savings to keep the business running in the event of illness or injury.

How it works

You can insure for reimbursement of up to 100% of 'eligible business expenses' which generally include:
- premises expenses: cleaning, insurance, interest and fees on loan to finance the premises, property rates/taxes, rent, repairs and maintenance, security costs.
- services expenses: electricity, fixed telephone and fax lines, gas, internet, mobile telephone, postage and couriers, water and sewerage.
- equipment: depreciation, motor vehicle leasing, insurance of vehicles and equipment, registration of vehicles, repairs and maintenance.
- salaries and related costs: salaries of employees who do not generate any business income plus payroll tax and superannuation (SG) contributions for these employees.
- other eligible expenses: account keeping fees, accounting and auditing fees, bank fees and charges, business insurances, professional association membership fees, regular advertising costs.

Waiting Period

If a successful claim is made a waiting period will apply before benefits start to be paid. The waiting period may be as short as 14 days but is usually one to three months. The shorter the waiting period, the higher the premium. The maximum time that payments continue is usually 12 months.

Policy Ownership

The insurance policy should be owned by the entity responsible for paying the expenses (i.e. you or your business).

The premiums are tax deductible to the policy owner but claim benefits received are treated as assessable income. This is offset by tax deductions for the expenses paid.

Risks and Consequences

- Benefits are paid monthly in arrears so your first payment would be received one month after the end of your waiting period.

- Benefit payment is usually excluded if you suffer sickness or injury as a result of war (or an act of war) or a self-inflicted act.
- You should always carefully read the Product Disclosure Statement (PDS) and policy document for your selected insurance policy and keep these documents in a safe place.

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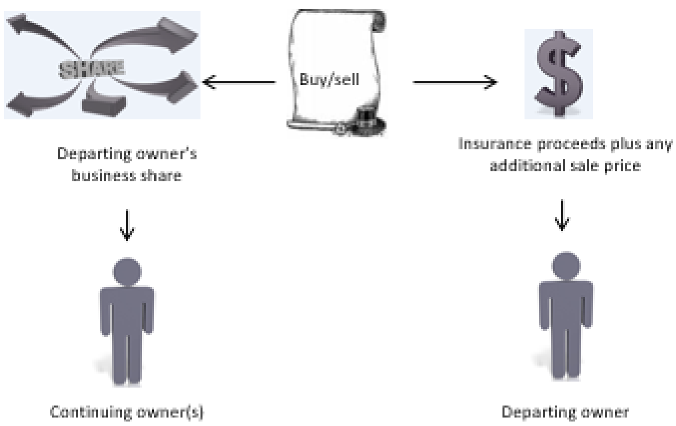
Business Insurance – Business Succession Agreement and Funding

The death, permanent disability or critical illness of an owner in a small-medium business can be detrimental to the ongoing viability of the business as well as the families of all owners.

For business owners, a Business Succession Agreement funded by insurance protects all owners and their families by enabling the timely and orderly transfer of ownership in the event of death, total and permanent disablement or critical illness or injury of one or more of the owners.

A successful strategy has two components: a business succession agreement and a funding mechanism. It is important that these two components are structured together. This will generally require a financial planner , lawyer and accountant to work together.



Benefits

This strategy can enable the remaining owners to acquire the interests of the outgoing owner so they can continue to run the business. The outgoing owner (or their estate) will receive adequate compensation in exchange for their share of the business.

How it works

The agreement

A business succession agreement involves the business owners entering into a written legal agreement to detail what will happen to their respective interests in the business should one of them die, become disabled or suffer a trauma. This type of agreement is sometimes referred to as a Business Will.

This document ensures the ownership of the business is transferred to the remaining owners. Essentially, the agreement should provide for the departing business owner (or their estate) to transfer their interest to the remaining owners, and for the remaining owners to acquire the departing owner's interest in the business.

If the business is operated through a company or trust, the agreement should be structured to require the owners of that entity to sell/purchase the business share. The owners of the shares or units in an operating entity are often the trustees of the respective owners' family (discretionary) trusts rather than the owners personally.

Funding

The agreement should also recognise the means of funding the buy/sell obligations.

There are generally three options for funding the capital requirements of a business succession plan - sell assets, borrow, or transfer the funding to an alternative mechanism like insurance. Insurance is often the most efficient means of ensuring adequate funds are available if the owner is departing due to death, disability or trauma.

If you have insurance funding in place without an implemented legal agreement, you run the risk of the insurance proceeds being paid to the departing owner, but the remaining owners not receiving control of the business share if there's no agreement between the parties about the price.

Ideally, the capital required to fund the transfer should reflect:

- each owner's individual (or related party-owned) equity holdings; if possible this should allow a cushion for growth over a three year period, particularly if insurance funding is selected as a source of capital
- alternative funding arrangements should insurance for an owner be unavailable or not a viable option.

The importance of business succession

Properly drafted and funded Business Succession Agreements obviously come into their own during periods of great stress for a business, such as the death or disablement of an owner. The stability that such careful forward planning brings at these times cannot be underestimated.

This stability will also be of considerable comfort to other stakeholders in your business, such as staff, creditors, customers/clients and financiers who will know that:

- Professional arrangements, and the funds to back up those plans, are in place for the orderly transfer of ownership, and
- The business can continue to operate under the experienced guidance of the remaining owner(s).

Furthermore, having adequate funds available for the settlement of an owner's interest removes the pressure on the business at a time of possible capital vulnerability.

Insurance Policy Ownership

There are a number of alternatives for how to own insurance policies as part of a buy/sell agreement. For example, the policies could be self-owned (by each owner), cross-owned (by each owner on life of the other owners), owned by a business entity or an independent insurance trust. There are benefits and disadvantages with each option and you should seek professional legal advice on this matter.

Self-ownership

Self-ownership is the simplest and most flexible option. The outgoing owner (or their estate) receives the insurance proceeds if a claim is triggered. If you have a spouse, you could nominate your spouse as beneficiary so they receive the payment directly.

Each owner is responsible for paying the premiums on their own policy but you can come to an agreement to pay these through the business. Where premiums are paid by the business, they are generally both tax deductible and subject to Fringe Benefits Tax, with the proceeds received tax free. You should seek tax advice from your accountant.

The Business Succession Agreement needs to be drafted to ensure that the share of business is transferred with the insurance payment counting towards to the sale price.

Cross-ownership
Each business owner will own (or jointly own) a policy on each of the other owners. If a claim is paid this gives the remaining owners control over the money to pay for the transfer of the departing owner's share under the terms of the agreement.

This option is often less tax-effective if ownership changes are likely as Capital Gains Tax (CGT) may be payable on claim proceeds. Additionally CGT may be payable on TPD and trauma claims where an insured owner is not related to the other owners.

Where premiums are paid by the business, they are generally both tax deductible and subject to Fringe Benefits Tax. You should seek tax advice from your accountant.

Family Trust Ownership
It is common for owners to own shares in a company or units in a trust that operate a business or own business assets via their respective family trusts.

Where this is the case, owners could consider holding the insurance in their family (discretionary) trusts. If a buy sell trigger event occurs to an owner, the agreement will require their family trust to transfer its shares or units to the continuing owners (or their respective trusts) and the policy proceeds will be paid tax-free into the family trust of the owner who has had the insurance event.

If the business pays the premiums, they are usually tax deductible but Fringe Benefits Tax is payable. The FBT rate is the top personal rate of 47% so this is effectively equivalent to an owner on this personal rate paying for the premiums out of their after-tax money. You should seek tax advice from your accountant.

Superannuation ownership
Owners could consider holding the insurance in a retail superannuation fund.

If the owner dies, the insurance will be paid into their member account and can be on-paid to their chosen beneficiary or estate. If the payment is made to certain beneficiaries, such as their spouse, it will be tax-free. Spouses may also have the option of taking a pension subject to the Transfer Balance cap. Payments made to other beneficiaries such as independent adult children will attract lump sum tax.

The exiting owner's beneficiary or estate will then transfer their interest in the business to the continuing owners or related entities.

If the owner is totally and permanently disabled, the owner can take their benefit as a pension subject to the transfer balance cap or lump sum. A lump sum will attract tax if the owner is under age 60.

The exiting owner will then transfer their interest in the business to the continuing owners.

Premiums are tax deductible to the business as concessional contributions to superannuation and are not subject to FBT. They will be counted towards the owner's $25,000 concessional contribution cap.

Insurance Trust Ownership
If flexibility is needed to deal with insurance proceeds from a death claim differently to a disability claim to manage tax implications, or there are a large number of owners of the business or changes to business ownership are likely, holding the insurance policies through a special purpose insurance trust may be advantageous.

The claim proceeds are paid to the insurance trust trustees and are distributed in accordance with the trust agreement. This needs to match the required outcomes under the Business Succession Agreement. The Trustee may pay the funds to the departing owner or their estate (in exchange for transfer of that person's business share to the remaining owner), or to the remaining business owners to purchase the departing owner's interest in the business.

In an Insurance Trust, Business Succession Insurance on an owner's life can be combined with Business Continuation Insurance for key person purposes in the same policy. If (for example) the business debts decrease and business equity increases over time, the amount of insurance allocated to Business Continuation Insurance and the amount allocated to Business Succession Insurance both held within the same policy can be decreased and increased respectively by amendment to the Trust Deed.

The insurance premiums are paid for by the trustee of the insurance trust and are not tax deductible.

Equalising premiums

It is important that the insurance policies continue to have premiums paid so they remain in place.

The policy owner is responsible for payment but the other business owners also have an interest to make sure the premiums are paid. It is common for some form of premium "equalisation" or "pooling" to occur so that effectively the total premium is shared according to shareholder interests.

Insurance premiums are based on the insured's life expectancy and health, and are more expensive for older lives. There is a greater chance of an insured event happening for an older shareholder than younger counterparts, so it can be fair if the latter subsidises the former's premium cost as they have more chance of increasing their stake in the business. That is, in the event of the death, disablement or trauma of the older (or less healthy) owner, the younger owners stand more chance of gaining the greater benefit from the arrangement.

Risks and Consequences

- The Business Succession Agreement is a crucial part of your business protection plan. You should seek expert legal advice to have an agreement established and ensure its structure and the insurance policy ownership are consistent with your objectives.
- You should also work with your accountant to consider taxation and business structure implications.
- Business values will regularly change. If the transfer is to be funded using insurance it is important to review the insurance levels on a regular basis to ensure they remain adequate.

- Business owners and their families should review and update their own personal Wills on a regular basis to ensure efficient distribution and control of the assets in the event of their death.
- All business owners should have Enduring Powers of Attorney in place to look after their affairs if they become incapacitated.
- Business owners who own their interest in the business via their family (discretionary) trusts should also have the trust deed reviewed as part of the business protection plan.
- Other funding mechanisms should be considered if the Agreement deals with non-insurable events such as retirement or if one or more of the business owners are not insurable or cannot obtain insurance on similar terms to the other owners.
- You should always carefully read the Product Disclosure Statement (PDS) and policy document for your selected insurance policy and keep these documents in a safe place.

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Business Insurance – Business Continuation Insurance

Key person insurance protects a business by providing a lump sum if a 'trigger' event such as death or disability results in the loss of a person who makes a significant contribution towards the profitability or stability of the business.

Benefits

The insurance proceeds protect the ongoing viability of the business and help to maintain its value by providing a lump sum that can be used to:

- offset a reduction in revenue while the business restructures or a replacement is found
- cover the costs associated with finding and training a suitable replacement
- reduce or repay debts
- protect a personal or business asset used as loan security.

How it works

Businesses are not made successful by tangible assets, such as land, buildings, plant, equipment, stock or working capital. Rather, success depends upon the expertise of the people who put these things to work.

Key people are the most valuable asset a business can have. Their departure (especially if unexpected, e.g. due to death, disablement, or critical illness or injury) could cause havoc not only to that person's family, but also to the business and to the lives of all who remain involved in the business.

Key person contingency strategies are designed to provide the business with money to offset the financial loss resulting from the disability or death of a key person.

This money may also be used in conjunction with a business succession plan to ensure that the business remains healthy after a proprietor/key person is unable to remain in the business. This may help to ensure the remaining business owners continue to have a viable business, but does not replace insurance needed to fund a Business Succession Agreement.

Who is a key person?

A key person is someone who:

- Gets things done. They might be a manager, director, company secretary/chief financial officer, accountant, supervisor, foreman or technical specialist.
- Builds goodwill. Their human attributes and qualities inspire confidence, attract custom and build clientele. Goodwill enhances the value of the business and is vital to its continued success.
- Improves the credit standing of the business. The confidence and goodwill built up by their skill and efficiency often enhances the credit extended to a business by suppliers and bankers alike.
- Contributes to revenue either directly via sales and client account management or indirectly via technical skills which would be difficult to replace if they involuntarily departed.

What is the business impact?

The loss of a key person can affect the business. For example:

- Revenue may fall, expenses increase and profits be impacted upon. This may result in immediate loss of revenue as existing contracts may not be able to be satisfied nor new contracts sought until a replacement is found.
- It will take time and money to find a replacement and perhaps months for the new person to become fully effective. In the meantime, momentum flags and profitability may fall. It becomes an opportune time for competitors to grasp an advantage.
- Others in the business may have their attention diverted, causing a decrease in productivity and downward pressure on cash flow.
- Liquidity and credit can be affected. Creditors can be quick to press for payment, debtors slow to pay and lenders reluctant to advance to a business after the loss of a key person.
- Goodwill and credit are closely linked; one tends to follow the other. Cash is often urgently needed for the financial stability of the business.
- The proprietors may feel bound to continue to pay the key person given that they are either a proprietor or at least a valued employee.
- Amounts the business owes a key person or their estate can often be called on with little or no notice.

To protect the business in the short term, key personnel should be insured to provide sufficient funding to cover the loss in revenue. This will provide the company with some breathing space to restructure for the future, without the financial strain resulting from a reduction in turnover, following their absence due to death, disablement or a critical illness or injury.

In addition, or alternatively, the business may wish to reduce the levels of debt or protect goodwill by providing sufficient funds to cover such capital costs/losses.

Insurance Policy Ownership

The business usually owns and pays the premiums for insurance policies for business continuation insurance policies.

If the cover is obtained for revenue purposes, the premium is tax deductible. Claim proceeds are paid to the business and are generally assessable as income to the business. The expenses it is used to cover may be tax deductible.

Where cover is obtained for capital purposes, the premiums are not tax deductible. Death benefits paid to the business are not assessable but proceeds paid for critical illness or total and permanent disablement are assessable to the business as a capital gain. The insured amount can be grossed-up to cover this expected tax liability.

Risks and Consequences

- The taxation treatment of the premiums and proceeds depend on the purpose, so it is important that details about the purpose of the policies are documented in the business minutes and reviewed and recorded each year.
- The ownership of the policies should be discussed with and confirmed by your lawyer and/or accountant before implementation.
- You should always carefully read the Product Disclosure Statement (PDS) and policy document for your selected insurance policy and keep these documents in a safe place.

Version: 1.06

Investment Concepts – Set and maintain a budget

A key to building wealth is saving. Setting a budget is about finding a balance between income and expenses and deciding what's important so you have money left over to save.

Benefits

- Setting a budget can help improve your cash flow and increase your savings capacity.
- Taking charge of your money can help you feel more secure and in control.
- A budget allows you to plan ahead to help meet your goals.

How it works

The best way to start taking control of your finances is to do a budget (or expenditure plan). A budget is simply a tool to help you identify your income and expenses. It shows if you are spending more or less than you can afford, and it can help you determine your capacity to save for future goals.

There are two sides to a budget – income and expenses. When putting your budget together, you should try to identify all regular payments over a full year.

- Income payments include salary, pension income, dividends, distributions, rental income and interest. You can use the after-tax amount of income or you can include an allowance for tax in your expenses.
- Expense payments include mortgage repayments, rent, bills, car costs, public transport costs and general living expenses.

To help identify your income and expenses, it can be useful to look through your pay slips, bank and credit card statements, bills, receipts and even your shopping dockets. Use your best guess if there's anything you can't find or if amounts vary across the year. Your budget will probably need to be adjusted over time until all income and expenses are captured.

Budget results

Once your budget is complete, you can identify your disposable income. Your disposable income is the total of your income less the total of your expenses.

- If your disposable income is negative, it means you are spending more than you earn. You should review the expenses side of your budget to see if there is anything you can cut back on or cut out altogether. Talk to your financial planner about strategies to help reduce your expenses.
- If your disposable income is positive, it means you have capacity to save. You could consider setting up a regular savings plan with your surplus income to increase savings for your future goals.

Even if you have surplus income it might be worth looking for further savings. The budget gives you an opportunity to look through your expenses and identify which items you need for basic living and which are extras that you could cut back on to increase savings. It is important that you don't cut out all of your extras because a budget that's too rigid won't work.

For your budget to be effective, it should be used in conjunction with a regular savings plan. The savings plan should direct your disposable income into an account that is appropriate for your goals and objectives. For some people, this may be a savings account.

Ongoing budget review

Your budget should be reviewed on a regular basis (this might be every 6 to 12 months) to ensure it continues to reflect your current income and expenses. It should also be reviewed if there are significant changes to your income or expenses, such as changing jobs, or buying a new house or car. Regular reviews will help your budget stay on track and help you achieve your savings goals.

Risks and Consequences

- Starting a budget for the first time can be difficult but it does get easier as you go along. Once your budget is set up, ongoing updates are much easier.
- ASIC have an online budget planner that you can use located at MoneySmart.gov.au.

Version: 1.06

Debt Management – Debt management

Reducing your debt provides savings because you pay less interest. Once your debts have been repaid, you will be able to increase your wealth by saving the repayment amount.

Benefits

- You will have potential to increase wealth once debts have been repaid.
- You will pay less interest over the life of your loan.
- Your financial burden will be reduced.

How it works

The cost of debt includes the interest you pay over the life of the loan and loan fees. Reducing these costs can provide you with significant savings which can help you reduce your debts quicker and increase your capacity to save.

Strategies that can help to reduce the overall cost of debt include making additional repayments, consolidating your debts, repaying debts with higher interest rates first and repaying non-deductible debt before deductible debt.

Additional repayments

Making extra repayments on your loan can help eliminate your debt faster and save on interest costs. Even a small increase in your repayments can provide you with significant savings over the life of your loan. Any lump sums you receive, such as tax refunds or bonuses, could be directed to your loan.

Putting your additional repayments into an offset account or redraw facility gives you the benefit of the reduced interest cost plus the security of knowing you can access the money again if you really need it. If your loan doesn’t have an offset account or a redraw facility, it may be worth checking with your provider to find out if this feature can be added to your existing loan.

Consolidate your debts

Consolidating your debts into one loan can save you costs because you will only pay account fees on one loan account. You will also save on interest costs if your higher interest rate loans (such as credit cards and personal loans) are consolidated onto your home loan which has a lower interest rate.

To implement the strategy, you will need to increase one loan facility (such as your home loan) and use the funds to repay your other debts. It is important that you continue making the same overall loan repayment on the remaining loan after consolidating otherwise it may take you longer to repay the debts and you could end up paying more interest over the life of the loan.

It is also important to ensure you use a budget so you don’t reaccumulate any other debts.

Repaying high interest rate debt first

If you have more than one loan, chances are that the interest rate applying to each loan will be different. As a general rule, credit card loans have the highest interest rate, personal loans next, then your home loan.

Focusing on repaying the loan with the highest interest rate can create savings compared to repaying all of the loans at the same time.

It is important that you continue making the required repayments on all the loans whilst using surplus income to repay the higher rate loan first.

Repay non-deductible debt first

The interest on loans that are used to buy an income-producing asset (such as shares or an investment property) is tax deductible. This is called 'deductible debt'. The tax deduction effectively reduces the cost of the debt, with the value of the deduction being higher if you are on a higher marginal tax rate.

'Non-deductible debt' is a loan which has been taken out to buy a non-income producing asset, such as your home or car, or to pay for personal expenditure, such as a holiday. You are generally not eligible for an income tax deduction for the interest on these loans so these debts should be repaid as quickly as possible.

To accelerate the repayment of your non-deductible debt you could:

- use your surplus income to make additional repayments
- halve your monthly repayments and repay this amount fortnightly instead – this results in you making 26 repayments for the year, equating to 13 months instead of only 12
- change the repayments on your deductible debt to interest only to increase your surplus income and direct this income to repay your non-deductible debt more quickly.

Risks and Consequences

- Before making any changes to your loan, you should check what fees and penalties may apply.
- Some loans do not allow additional repayments to be made. You should check with your loan provider whether additional repayments are allowed and whether any penalties apply.
- You should have adequate life insurance to help meet loan repayments or payout your debt if your income stops because of death or illness.
- You should check with your accountant before making changes to investment related borrowings.

Version: 1.06

Debt Management – Redraw facility

A redraw facility allows you to withdraw any additional home loan repayments you have made when necessary. Paying any extra money you have available into your home loan can be an easier decision when you know you may have the ability to get these additional payments back at a later date. A redraw facility is usually available on most variable rate loans but is not available on fixed rate loans. Please contact your financial institution to find out what they can offer you.

Benefits

- Putting excess funds into your home loan means you are effectively earning the interest rate of your loan account on these savings. The interest rate on your home loan is likely to be higher than the interest rate you are able to achieve on any cash savings account.
- Even though you are effectively earning a higher interest rate than if your money was in a savings account, you do not have to pay any tax, whereas interest earned in a savings account is considered income and may be taxable.
- Redrawing on your home loan can be cheaper than using your credit card or personal loan as there is generally a lower interest rate.
- A redraw facility gives you the 'peace of mind' of knowing you may have an accessible source of funds sitting in your home loan account for any planned or unexpected events.

How it works

Making extra repayments on your loan can help eliminate your debt faster and save on interest costs. Even a small increase in your repayments can provide you with significant savings over the life of your loan. Any lump sums you receive, such as tax refunds or bonuses, could be directed to your loan.

First of all, you need to check with your provider whether your loan account has a redraw facility or is eligible to have one established. Secondly, you need to make loan repayments above the minimum. If you have mortgage repayments of say $1,000 a fortnight and you pay $1,500 a fortnight, i.e. an extra $500 off each time, the extra $500 can go into the redraw facility and you will be able to access it later if necessary. It will also reduce the balance of your outstanding loan, hence reducing interest charged by the bank. Additional amounts are calculated by the bank and called accrued extra payments available for redraw. You then can apply to draw on these extra payments. You will need to contact your financial institution to organise and check the terms and conditions for the redraw.

Risks and Consequences

- Redrawing additional payments you have made will reduce the benefit of making additional repayments.
- There may be a fee for having a redraw facility.
- The number of free redraws and maximum number of redraws per year can be limited.
- There may be a fee per redraw.
- There may be a minimum or maximum redraw limit available.

Version: 1.06

Debt Management – Debt recycling

Debt recycling is the process of replacing mortgage debt (non-deductible), with investment debt (deductible).

This strategy enables you to start building wealth while you are still paying off your home mortgage. You effectively take out equity from your home and invest somewhere else, where you can potentially achieve a high level of income and growth. Income from these new investments can be used to further reduce the mortgage balance, while the growth component contributes to wealth accumulation.

Although gearing can deliver benefits, the risks associated with gearing may mean it is unsuitable for you. It is essential to carefully consider these risks before proceeding with a gearing strategy.

Benefits

- You are able to invest immediately rather than waiting for the mortgage to be paid off. It allows the power of compounding earnings to start working earlier.
- By directing investment and other available income into a home loan, there is the opportunity to reduce it faster and therefore save on interest.
- Borrowing to invest can provide tax effectiveness through the deductibility of interest. This will reduce the net cost of the strategy to you. The higher your marginal tax rate, the more profitable this strategy is.
- You will be invested in a larger investment portfolio than available without borrowing.
- Gearing provides for a diversified approach to create wealth for your retirement. It can reduce the risk of adverse legislation changes regarding your retirement savings inside superannuation.

How it works

This strategy involves transferring your non-deductible debt of a home loan into a tax deductible debt of an investment loan. The primary objective is to reduce the non-deductible debt faster than just making regular repayments, while accumulating wealth.

All surplus cash flow, after the interest is paid on the investment loan (line of credit), is used to reduce a non-deductible home loan, thereby more rapidly increasing equity in the home. Home loan repayments are 'Principal and Interest' while the investment loan payments are 'Interest Only' to ensure that non-deductible debt repays earlier and deductible debt works to the maximum. All investment earnings, franking credits, tax refunds and other surplus cash flow, after paying the investment loan interest, should be used to further reduce the home loan and increase equity in the home. Over time, amounts equivalent to the increase in equity can be drawn down and invested in growth investments further, if desired (depending on your life stage and objectives). The above process is repeated over future years in a disciplined manner to reduce the non-deductible home loan more rapidly, whilst increasing investments into growth assets.

To commence a debt recycling strategy, you need to ensure you are able to achieve a desirable loan structure, please contact your financial institution to discover further details. A loan facility allowing separate sub-accounts is preferred, with the ability to choose between principal and interest and interest only repayments. As some of the investment debt will have deductible interest costs, these amounts should be kept separate.

Risks and Consequences

- Debt recycling can lead to compounding losses when markets experience a downturn.
- Interest rates associated with loan facilities used in debt recycling strategies are often higher than the standard variable mortgage rate.
- Debt recycling is not recommended for anyone with an investment timeframe of less than seven years.
- It is a risky strategy and only suited to investors with a reasonable risk tolerance and a secure income source.
- You should have adequate life insurance to help meet loan repayments if your income stops because of death or illness.

Version: 1.06

Tax – Salary packaging (non-superannuation)

Salary packaging is an arrangement where you agree to give up part of your future cash salary in return for benefits of a similar value.

Benefits

- Salary packaging can increase your cash flow and your savings capacity because you pay some of your usual expenses with pre-tax income.

How it works

When an employer pays an employee with a benefit other than cash, the benefit is generally classed as a 'fringe benefit' and attracts fringe benefits tax (FBT) at the top marginal tax rate. For many employees, this means salary packaging will result in the same or more tax being paid.

However, salary packaging can be worthwhile where either the employer or the benefit receives concessional FBT treatment.

- If you work for an FBT exempt employer, you may be able to package benefits up to a specified threshold without being subject to FBT. These employers include public benevolent institutions and some hospitals.
- If you work for a rebatable employer you may be able to package benefits up to a specified threshold and only be subject to approximately half the amount of FBT. This is because rebatable employers are entitled to a rebate on FBT up to a specified threshold. Rebatable employers include certain religious or educational institutions and charities.
- You may be able to package exempt items that do not attract FBT if they are purchased primarily for use in employment. Exempt items include portable electronic devices, computer software, protective clothing, a briefcase and tools of trade.
- You may be able to package specific items that receive concessional FBT treatment. These items include a car or a car parking space, where only a portion of the value has FBT applied.

Packaging agreement

You need to confirm with your employer that you are able to salary package because it is not compulsory for employers to offer packaging arrangements. If your employer does allow salary packaging, you should also check what they require to put the arrangement in place.

It is recommended that you set out the terms of your salary packaging arrangement in writing. You should ensure that your agreement includes confirmation that your other entitlements will not reduce as a result of your salary packaging arrangement.

Reportable fringe benefits

The grossed up amount of reportable packaged benefits that exceed $2,000 are reported on your payment summary. The reportable fringe benefit amount is generally equivalent to the gross amount of salary you would need to have earned to obtain the same benefit using post-tax income.
This reportable amount is not included in your assessable income, but it is included on your tax return for the purpose of determining your obligations or entitlement to certain benefits or concessions, including:

- Medicare levy surcharge

- Personal deductible superannuation contributions
- Superannuation Government co-contribution
- Spouse contributions tax offset
- Senior Australians and Pensioners Tax Offset
- Compulsory HELP and financial supplement repayments
- Child support assessments
- Income tested government benefits (such as Department of Human Services payments)

Risks and Consequences

- An employer may only be obligated to calculate your entitlement to certain other benefits based on your cash salary. As salary packaging reduces your cash salary this may reduce other benefits and entitlements.
- You should confirm with your accountant that the salary packaging arrangement is appropriate for your overall tax situation.

Version: 1.06

Superannuation – Superannuation

Using superannuation as a savings vehicle is a tax-effective way to increase your savings to meet your retirement goals.

Types of superannuation funds

There are many types of superannuation funds. Some of the most common are summarised below.

Retail and Industry funds

Generally anyone can join a retail fund. A retail fund usually doesn't have any particular alignment to an industry and many are run by investment companies and banks. An industry fund may have an association with a specific industry however many also allow anyone to join as a personal member.

Self-managed super funds

A self-managed super fund (SMSF) is often referred to as a 'Do it yourself' fund. An SMSF can have up to 4 members. Generally each member also has to be a trustee of the fund (or a director of a corporate trustee). This means that the members of the fund are generally responsible for running the SMSF, and ensuring that the fund is run in accordance with superannuation and tax legislation. This can be a significant responsibility.

An SMSF may facilitate a broader range of investment opportunities and control over retirement savings. However this flexibility and control can come at the cost of requiring considerable time, effort and knowledge of financial and legal matters.

Corporate funds

An employer may establish a corporate fund or 'employer plan' for their employees. Often, an employer plan is simply a branch of a retail or industry fund. Sometimes there may be concessions on administration and admin fees, or discounts on insurance premiums for members of corporate plans. However when a member of an employer plan ceases work for that particular employer, sometimes membership can be transferred to the fund's 'personal division'. It is important to understand what benefits and concessions may alter or cease at that time.

Defined benefit funds

Defined benefit funds were mainly offered by public sector employees or large corporations. Many are now closed to new members.

Unlike an ordinary fund, where the value of the retirement benefit is broadly determined by the value of contributions and investment returns, in a defined benefit fund, retirement benefits are usually determined by factors such as your age, final salary at retirement, and how many years of service you had with your employer. Your final benefits are not reliant on investment returns and are generally guaranteed by the fund.

Benefits

- Contributions into superannuation can be tax-effective, particularly if made under a salary sacrifice arrangement or if the contributions are tax deductible, because the contributions are effectively being made with pre-tax money.
- The after-tax rate of return inside superannuation may be higher when compared to investing outside superannuation. This is because earnings inside superannuation are taxed at a maximum

rate of just 15%, whereas earnings from non-superannuation investments are generally taxed at your marginal tax rate plus Medicare levy, which could be as high as 47%. This helps savings to grow faster.
- Superannuation money is tax-free if withdrawn after age 60 (unless withdrawn from an untaxed fund).
- Superannuation can be used to provide a tax-effective income stream in retirement.

How it works

Superannuation is a savings vehicle designed to help you save for retirement. Superannuation funds that comply with Australian law receive generous tax concessions which provide an incentive for you to save for your own retirement. Your account balance generally consists of contributions from your employer, your own personal contributions and earnings from investments.

Most superannuation funds will allow you to select how your money is invested and will usually offer a selection of investments based on local shares, property and or fixed interest. As different asset classes offer different levels of risk, it's important to choose wisely and get advice.

Contributions

Eligibility to contribute to superannuation is based on your age. Anyone under the age of 65 is eligible to contribute, but from age 65-74 you must meet a work test for any contributions other than those your employer is obliged to make on your behalf. Once you reach age 75, contributions generally cannot be made unless the contributions are mandated employer contributions required under an agreement or award.

Age	Requirement
Under age 65	No restrictions.
65 – 74	You must have been gainfully employed for at least 40 hours within any 30 consecutive day period during the current financial year before the contribution can be made unless the contributions are mandated employer contributions or downsizer contributions.
75 or over	Only mandated employer contributions (such as SG), and downsizer contributions can be made.

Contributions to superannuation are split into categories with caps applying to each category. The most commonly used caps are the concessional contribution cap and the non-concessional contribution cap. A CGT cap is also available to small business owners who sell eligible business assets.

The caps are intended to limit the amount of tax concessions relating to superannuation and to encourage people to save for retirement over a lifetime rather than only in the few years prior to retirement. Contribution caps are indexed periodically.

Concessional contributions

Your annual concessional contribution cap is $25,000 (applies in 2018/19 and may be subject to indexation).
Concessional contributions include:
- Contributions made for you by your employer (eg super guarantee contributions)
- Salary sacrifice contributions

- Personal contributions for which a deduction has been claimed (personal deductible contributions), and
- Certain other contributions from various sources.

If you exceed your concessional contribution cap, excess contributions are taxed at your marginal tax rate, less the 15% tax already deducted within the fund. An interest penalty will also apply. You can elect to withdraw the excess from superannuation. If you don't make this election the amount of the excess contribution is also counted towards the non-concessional contributions cap.

Personal Deductible Contributions

You will also have the option of making concessional contributions directly to your fund by making a personal super contribution and claiming a tax deduction for the contribution. A personal deductible contribution will count towards your concessional contribution cap. There are a number of important steps that must be followed for a personal deductible contribution to be valid.

Generally, the outcome achieved by making a personal deductible contribution is similar to when you make salary sacrifice contributions. It will be important to consider which method is most appropriate for you. For employees, salary sacrifice is an appropriate option due to its relative simplicity.

Catch up Concessional Contributions

From 1 July 2018, you may be able to accrue your unused concessional contributions and carry these amounts forward to enable you to make concessional contributions in excess of the annual cap in subsequent years. Amounts are carried forward on a five year rolling basis. As the regime only applies to unused amounts accrued since 1 July 2018, the first year you may be eligible to use a carried forward amount will be the 2019/20 financial year. To make use of carried forward concessional contributions, your superannuation balance cannot exceed $500,000 on the 30 June of the previous financial year. Unused amounts which you have not used within five years cannot be carried forward.

Concessional contribution tax for high income earners

If your 'income' from certain sources exceeds $250,000 (threshold applies in 2018/19), some or all of your concessional contributions within the concessional cap are subject to an additional 15% tax. 'Income' for this purpose includes:

- taxable income (including the net amount on which family trust distribution tax has been paid)
- reportable fringe benefits
- total net investment loss (including net financial investment loss and net rental property loss)
- concessional contributions within the cap.

The additional 15% tax applies to any concessional contributions (within your cap) that result in your income exceeding the $250,000 threshold during a financial year.

Non-concessional contributions

Non-concessional contributions generally consist of contributions from after-tax income, such as personal contributions (for which you don't claim a tax deduction) and spouse contributions.

The annual non-concessional contribution cap for the 2018/19 financial year is $100,000.

If you are under age 65 on 1st of July in a financial year you may be able to trigger the 'bring-forward' rule to make larger contributions.

The 'bring-forward' rule effectively allows you to bring forward up to an additional two years' worth of non-concessional cap and add it to the current year's cap. If eligible, you may be able to contribute up to $300,000 over the three year period. The total bring-forward amount you're able to trigger will reduce if your total superannuation savings are at least equal to $1.4 million on the 30th of June prior to the financial year in which you trigger the bring-forward rule.

The bring-forward rule is automatically triggered if you're eligible and make non-concessional contributions in a financial year that exceed your annual non-concessional limit. Once triggered, your non-concessional contribution cap will not be indexed for the next two years. In addition, you must have total superannuation savings of less than $1.6 million at 30 June to be eligible to make any non-concessional contributions in the following year.

These rules are complex so it is important that you get advice.

If you exceed your non-concessional contribution cap, you can choose to have the excess contributions and associated earnings (as calculated by the Tax Office) refunded with penalty tax only applied to the earnings. If not withdrawn, the excess contributions are taxed at the highest marginal tax rate plus Medicare levy. The tax payable must be withdrawn from superannuation.

Conditions of release

To access your superannuation account balance you first need to meet a condition of release.

You will automatically meet a condition of release once you turn age 65. Prior to age 65, you can meet a condition of release if you (a) cease a gainful employment arrangement after having turned age 60 (even if you are still working in another job), or (b) retire after having reached your preservation age.

Your preservation age is based on your date of birth, as shown in the following table:

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 to 30 June 1961	56
1 July 1961 to 30 June 1962	57
1 July 1962 to 30 June 1963	58
1 July 1963 to 30 June 1964	59
1 July 1964 or later	60

In very limited circumstances a condition of release may be met before age 65 or retirement. These circumstances include being temporarily or permanently disabled, being in severe financial hardship or on compassionate grounds (e.g. to pay for medical costs).

Risks and Consequences

- It is important that you keep track of your superannuation contributions to ensure you don't exceed your contribution caps.
- Superannuation may not provide a better after-tax rate of return than non-superannuation investments if your marginal tax rate is less than 15%.

- All contributions to superannuation are preserved until you meet a condition of release.
- The total amount of superannuation money used to start certain pensions (broadly where you have met a full condition of release) is subject to a lifetime 'transfer balance cap'. In 2018/19 this cap is $1.6 million. You can retain excess amounts in your accumulation accounts where tax at 15% continues to apply to investment earnings. Generally, death benefit pensions that you receive because of the death of another person will also count towards this limit.
- Fees may be charged for your superannuation contributions and on transfers between funds. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your superannuation fund.
- The government may change superannuation legislation in the future.

Version: 1.06

Superannuation – co-contribution

Making a non-concessional contribution (NCC) into superannuation to attract a co-contribution provides a significant boost to your retirement savings.

Benefits

- Your retirement savings will increase more quickly due to the compounding effect of making personal contributions and receiving the superannuation co-contribution.
- Your tax-free component will increase. This component is not taxable if withdrawn prior to age 60 or if paid to a non-tax dependant (such as an adult child) after your death.
- The additional contributions can help to cover the cost of insurance premiums if you hold insurance inside superannuation.
- You may be able to achieve a higher after-tax rate of return compared to investing outside superannuation because earnings inside superannuation are taxed at a maximum rate of 15%. This compares to earnings outside superannuation are generally taxed at your marginal tax rate which may be higher.

How it works

The superannuation co-contribution is a Government initiative to help people on low to medium incomes to boost their superannuation savings. To be eligible for the co-contribution, you need to meet all of the following criteria:

- make an eligible NCC (after-tax contribution) into a complying superannuation fund during the financial year
- be under age 71 at the end of the financial year
- have total income (minus any allowable business deductions) for the financial year less than $52,697 for the 2018/19 financial year
- have 10% or more of your total assessable income coming from employment or business income (or a combination of both)
- have not held a temporary visa at any time during the financial year (unless you are a New Zealand citizen or holder of a prescribed visa)
- lodge an Australian income tax return for the relevant financial year.
- you have a total superannuation balance of less than the general transfer balance cap (TBC) as at the prior 30 June (cap is $1.6m in 2018/19), and
- you have not made contributions that exceed your NCC cap during the financial year in question.

Total assessable income to determine eligibility is the sum of your assessable income (before tax deductions), reportable fringe benefits and reportable employer superannuation contributions (which include salary sacrificed contributions). This can be reduced by certain allowable deductions if running a business.

The Australian Tax Office (ATO) will determine your eligibility for the co-contribution after receiving your tax return for the relevant year.

Calculating your entitlement

If eligible, the ATO will pay your co-contribution directly into your superannuation account. This payment is tax-free and does not affect your taxable income.

Your entitlement is based on the amount you have contributed into superannuation and your total assessable income. You could receive up to $500.

If you have higher income than the lower threshold your maximum co-contribution reduces by 3.333c for every dollar that you earn over that amount. You will not receive any co-contribution if your total annual assessable income exceeds the upper limit for the financial year.

If you run your own business, your gross income (before deductions) is used to check that at least 10% of your total income is from business, to be eligible for the co-contribution. But when you are calculating how much you can receive, your net business income (after-deductions) is used. Deductions for personal superannuation contributions are not included.

Risks and Consequences

- Contribution caps apply to superannuation contributions. Your personal after-tax contribution into superannuation counts towards your NCC cap. If you exceed your NCC cap, significant tax penalties can apply.
- You cannot make an NCC if you have a total superannuation balance equal to or greater than the general TBC as at the prior 30 June.
- Fees may be charged for your superannuation contributions. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your superannuation fund.
- All contributions to superannuation are preserved until you meet a condition of release. You need to be sure that you do not need access to the amount contributed until you retire.
- The Government may change superannuation legislation in the future.

Version: 1.06

Superannuation – Consolidate superannuation

Consolidating your superannuation accounts into one fund can simplify your finances and may increase your overall return from investments.

Benefits

- Maintaining less superannuation accounts reduces your paperwork and may therefore simplify your finances.
- Your overall super balance may increase over time because your total costs may reduce.
- Looking after only one portfolio can help you achieve a more focused retirement strategy.

How it works

If you have more than one superannuation account, you are probably paying fees on each account. Consolidating your superannuation can reduce your overall costs because it will result in fees being paid on only one account. Consolidating superannuation can also help you keep track of your money and reduce the number of superannuation statements you receive each year.

Most superannuation accounts can be rolled over to another superannuation fund at any time. There are some exceptions – for example, some employer sponsored or defined benefit funds may not be able to be rolled over. You may need to check with your superannuation fund that your account balance can be rolled over.

To rollover your super, you need to provide your fund with a transfer request form. Once your fund has received all of the information it requires, your balance will be rolled directly into your new chosen fund.

Your superannuation fund will send you a rollover benefits statement confirming the details of the rollover. You should check that the details in the statement are correct and keep it for your records.

Risks and Consequences

- You may incur fees and charges for rolling out of your old superannuation fund and/or you may lose certain benefits. Any lost benefits need to be weighed up against the benefits of the new superannuation fund. You may be able to arrange options in the new fund to replace any benefits that will be lost. It is important to check these details before requesting the transfer.
- If you have made personal contributions for which you wish to claim a tax deduction, you must lodge Notice of Intent form with your old superannuation fund (and wait for confirmation that they have received the notice) before requesting a rollover out of that fund. If you don't do this, you will impact your eligibility to claim a tax deduction.
- Fees may be charged for the rollover to your new fund. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your superannuation fund.
- If your old superannuation account includes an untaxed element, tax will be deducted when your balance in rolled over to your new fund.
- If you hold insurance in your old superannuation fund, you should ensure you have replacement cover approved and in place before rolling over.

Version: 1.06

Superannuation – Cash out and re-contribute to super

The re-contribution strategy involves withdrawing some or all of your superannuation balance, and re-contributing the amount as a non-concessional contribution. Non-concessional contributions form part of the tax-free component of your super fund. This strategy may effectively enable you to convert some or all of your existing taxable component into tax-free component.

Benefits

- Your tax-free component will increase. The tax-free portion of your withdrawal is tax-free even if you are under age 60 (subject to preservation rules).
- The re-contribution strategy can help to reduce potential tax payable when receiving pension payments from a superannuation income stream between preservation age and age 60.
- The tax-free component is also not taxable if paid as a death benefit to any of your dependants (even adult children). This can increase the amount payable to your family or estate.
- Depending on your income for the year and satisfying the requirements, you may be eligible for the Government co-contribution. The Government may contribute $0.50 for every $1.00 of non-concessional contributions (NCC) you make, up to a maximum of $500.

How it works

To implement this strategy, you need to be eligible to withdraw a lump sum from superannuation. This means you must have either met a full condition of release or you need to have unrestricted non-preserved money already in your account.

To enable you to re-contribute the money, you must be eligible to contribute to superannuation which generally means you need to either be under age 65 or age 65-74 and have met the work test. The work test requires that you have worked at least 40 hours over a consecutive 30 day period in the financial year the contribution is made.

1. <u>Make the withdrawal</u>

If your superannuation fund includes both taxable and tax-free components, the withdrawal must be proportionally drawn from both components. For example, if your tax-free component makes up 20% of your account balance prior to withdrawal, then 20% of any withdrawal is tax-free component and 80% taxable component.

If you are over age 60, you are not liable to pay tax on either component unless you are in an unfunded (untaxed) superannuation scheme.

If you are under age 60 (but at least your preservation age), you're entitled to the 'low-rate cap'. This is a lifetime amount that you may withdraw from the taxable component of your superannuation, without paying tax. The re-contribution strategy is generally most effective if the taxable component included in the withdrawal does not exceed the low rate cap (as no lump sum tax will be payable).

If tax is payable, your superannuation fund may withhold lump sum tax from the withdrawal at the following rates:

Your age	Tax component	Maximum tax rate

Between preservation age and age 60	Tax-free component		0%
	Taxable component	Up to $205,000*	0%
		Over $205,000*	15%^
60 or over	All components		0%

*Low rate cap applicable for 2018/19. ^Plus 2% Medicare Levy.

Taxable components received under age 60 must be included in your tax return regardless of whether tax is payable or not. As this amount is included, it may impact eligibility for other Government benefits and entitlements.

2. Recontribute the amount to super

After you have made the withdrawal, you need to re-contribute that amount back into your superannuation account as a non-concessional contribution (NCC). It is important to ensure this amount does not cause your non-concessional contribution cap to be exceeded.

You must have a 'total superannuation balance' (including all accumulation and pension accounts) of less than $1.6 million at the prior 30 June to be eligible to make any NCCs the following year.

If you are under age 65 on the 1st of July, you may be able to bring forward up to two years of non-concessional contributions, enabling you to make a larger contribution sooner. If you make the maximum bring forward contribution in a single year for example, you're not eligible to make any further non-concessional contributions in the next two years. However, if you trigger the bring forward rule in a year, but don't fully utilise the maximum available non-concessional cap in that year, the remaining balance may be contributed in either the next financial year, or the year after. However, to make any further contributions in a future year, even if you've triggered the bring forward rule, you must be eligible to contribute to superannuation and your total superannuation balance will need to stay below $1.6m each 30 June to entitle you to make any additional contributions in a later year.

The maximum amount you can contribute as a non-concessional contribution, including under the bring forward rule, reduces if your total superannuation balance is more than $1.4 million on the 30 June prior to the financial year in which you trigger the bring forward rule. These rules are complex so it is important that you get advice to understand how the rules will apply to you.

Risks and Consequences

- If you are under age 60, any taxable component withdrawn is included in your assessable income. This also applies to taxable component you withdraw within your available low-rate cap. Even though you won't pay tax on the amount withdrawn within your low-rate cap, the withdrawal may impact your entitlement to certain Government benefits and concessions that are based on your income. It may also affect child support liabilities.
- If you have made personal contributions for which you wish to claim a tax deduction, you must lodge a Notice of Intent form with your superannuation fund (and wait for confirmation that they have received the notice) before requesting any withdrawal, rolling your money to another superannuation fund or commencing a superannuation income stream.
- The re-contribution back into your superannuation account will be preserved unless you continue to meet a condition of release.
- You will not be eligible for the Government co-contribution if you exceed your NCC cap or your total superannuation savings exceed $1.6 million.
- Your re-contribution into superannuation counts towards your NCC cap. If you exceed your NCC cap significant tax penalties may apply.

- You will not be eligible to make non-concessional contributions if you have total superannuation savings of $1.6 million or more.
- Fees may be charged for withdrawals and/or contributions. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your superannuation fund.
- The Government may change superannuation legislation in the future.

Version: 1.06

Superannuation – Non-concessional contributions

Making non-concessional contributions into superannuation increases your retirement savings and your tax-free component.

Benefits

- Investing in superannuation boosts your savings to help meet your retirement goals.
- The rate of return inside superannuation may be higher after-tax than investing outside superannuation. This is because earnings inside superannuation are taxed at a maximum rate of just 15%, whereas earnings from non-superannuation investments are generally taxed at your marginal tax rate. This helps your savings to grow faster.
- Your tax-free component will increase. This amount can be withdrawn tax-free at any age (subject to preservation rules).
- The tax-free component is not taxable if paid as a lump sum death benefit to any of your dependants (even adult children). This can increase the amount payable to your family or estate.
- Depending on your income for the year and satisfying eligibility requirements, the Government may contribute $0.50 for every $1.00 of non-concessional contributions you make, up to a maximum of $500.
- Department of Human Services entitlements may increase if you are under Age Pension age (or under age 60 if a veteran) due to exemptions on the assessment of superannuation.

How it works

To be eligible to contribute to superannuation, you must be either under age 65, or 65-74 and have worked at least 40 hours in any 30 consecutive days in the current financial year. Contributions must generally be accepted no later than 28 days after the month in which you turn 75.

Non-concessional contributions are made from after-tax income and may include:

- personal contributions where you have not claimed an income tax deduction
- after-tax salary that you have requested your employer to direct into superannuation on your behalf
- spouse contributions
- contributions in excess of your capital gains tax (CGT) cap from business assets
- most transfers from foreign superannuation funds.

Non-concessional contributions do not include superannuation guarantee (SG) contributions, salary sacrifice or certain contributions resulting from personal injury payments.

Non-concessional contributions form part of the tax-free component of your superannuation account, which is tax-free when withdrawn from super, even whilst you are under age 60 (subject to meeting preservation rules).

Non-concessional contribution caps

There is a cap on how much you can contribute as a non-concessional contribution each year. The non-concessional contribution cap for 2018/19 is $100,000.

The 'bring-forward' rule effectively allows you to bring forward up to an additional two years' worth of non-concessional cap and add it to the current year's cap. If eligible, you may be able to contribute up to $300,000 over the three year period. The total bring-forward amount you're able to trigger will reduce if your total superannuation savings are at least equal to $1.4 million on the 30th of June prior to the financial year in which you trigger the bring-forward rule.

The bring-forward rule is automatically triggered if you're eligible and make non-concessional contributions in a financial year that exceed your annual non-concessional limit. Once triggered, your non-concessional contribution cap will not be indexed for the next two years. In addition, you must have total superannuation savings of less than $1.6 million at 30 June to be eligible to make any non-concessional contributions in the following year.

These rules are complex so it is important that you get advice.

If you exceed your NCC cap, the excess contribution may be withdrawn from superannuation, along with any associated earnings within 60 days of the excess being determined by the ATO. The associated earnings will be included in your assessable income and taxed at your marginal tax rate. If you do not make the election to withdraw within 60 days, the excess contribution will be taxed at 47%.

Risks and Consequences

- All contributions to superannuation are preserved until you meet a condition of release. You need to be sure that you do not need access to the amount contributed until you meet a condition of release, such as retirement after your preservation age.
- If you exceed your NCC cap excess contribution significant tax penalties may apply.
- You will not be eligible to make non-concessional contributions if you have total superannuation savings exceeds the general transfer balance cap of $1.6 million or more as at the prior 30 June.
- If you do not make an election to withdraw any excess concessional contributions that you make to super, they will also be counted towards your NCC cap which may reduce your capacity to make additional NCCs.
- Fees may be charged for your superannuation contributions. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your superannuation fund.
- The Government may change superannuation legislation in the future.

Version: 1.06

Superannuation – Personal deductible contributions

Making a personal contribution into superannuation and claiming a tax deduction for the contribution may increase your retirement savings and reduce your income tax payable.

Benefits

- Investing in superannuation boosts your savings to help meet your retirement goals.
- The rate of return inside superannuation may be higher after-tax than investing outside superannuation. This is because earnings inside superannuation are taxed at a maximum rate of just 15%, whereas earnings from non-superannuation investments are generally taxed at your marginal tax rate. This helps your savings to grow faster.
- Savings can grow by making contributions from pre-tax money, with a maximum tax rate of 15% on contributions. High income earners may pay an additional 15% tax on all or part of their concessional contributions.
- Tax efficiencies may also be created by carefully planning when disposing of assets to reduce capital gains tax.
- The additional contributions can help to cover the cost of insurance premiums if you hold insurance inside superannuation.

How it works

To claim a tax deduction for a personal contribution, you will first need to make an eligible personal contribution to superannuation. You need to be under age 65 or 65-74 and have worked at least 40 hours within 30 consecutive days within the financial year to be eligible to make any contributions. Generally contributions must be accepted no later than 28 days after the month in which you turn 75.

Notifying the fund of intentions

To claim the tax deduction, you need to lodge a Notice of Intent form with the trustee of the fund by the earlier of:

- the day you lodge your tax return for the financial year
- the end of the financial year after the year in which the contribution was made
- commencing an income stream from the fund
- withdrawing or rolling money out of the fund
- lodging an application to split contributions to a spouse.

Once you have lodged a Notice of Intent with your fund, you cannot revoke it. However if you have made an error or no longer wish to claim a deduction for the amount originally noted, you can reduce the amount you wish to claim in part (including to nil) by lodging a valid Variation Notice. It is important to understand that similar to lodging a Notice of Intent, there are certain conditions and timeframes within which you must lodge the variation notice for it to be valid.

Contribution caps

If you claim a deduction for a personal contribution, the amount is included as a concessional contribution and counts towards your concessional contributions cap.

There is a cap on how much can be contributed as concessional contributions each year without incurring additional rates of tax. The concessional contribution cap for 2018/19 is $25,000.

Concessional contributions also include contributions your employer is liable to make on your behalf (eg Super Guarantee contributions) and salary sacrifice contributions. There are certain other contributions that may also count (eg distributions from superannuation fund reserves).

Tax applies on your concessional contributions at a rate of up to 15%. If you're a high income earner, and have income from certain sources in excess of $250,000 (income threshold applies in 2018/19) you may be subject to an additional 15% tax on your concessional contributions within the cap.

If the concessional cap is exceeded, you will pay tax on the excess contribution at your marginal rate less the 15% already paid within your superannuation fund. Interest penalties will also apply. You can elect to withdraw the excess from superannuation. If you don't make this election, the excess amount is also counted towards the non-concessional contributions cap. Additional tax penalties may also apply if you exceed the non-concessional contribution cap.

Catch up Concessional Contributions

From 1 July 2018, you may be able to accrue your unused concessional contributions cap and carry these amounts forward to enable you to make concessional contributions in excess of your annual cap in subsequent years. Amounts will be carried forward on a five year rolling basis. As the regime only applies to unused amounts accrued since 1 July 2018, the first year you may be eligible to use a carried forward amount will be the 2019/20 financial year. To make use of a carried forward concessional contribution, your total superannuation balance (which includes the value of all of your superannuation pension accounts and accumulation balances) cannot exceed $500,000 on the 30 June of the previous financial year. Unused amounts which you have not used within five years cannot be carried forward.

Low Income Superannuation Tax Offset (LISTO)

If you have an adjusted taxable income of less than $37,000 you may receive a LISTO contribution from the government paid into your superannuation fund equal to 15% of your total concessional superannuation contributions for an income year, capped at $500.

The ATO will determine your eligibility for the Low Income Superannuation Tax Offset and advise your superannuation fund annually.

Risks and Consequences

- A deduction can only reduce your taxable income to nil. It cannot create an income loss.
- If you are age 75 or over, deductions can only be claimed for contributions made before the 28th day of the month following the month in which you turned age 75.
- Personal deductible contributions are a reportable superannuation contribution. This means the contribution is not included in your assessable income, but is included on your tax return for the purpose of determining your eligibility to certain benefits, concessions and obligations.
- The deductible contributions are added to your taxable component. Tax will be payable if you access these amounts before age 60 or if they are paid as a death benefit to non-tax dependants (eg adult children) as a lump sum or to eligible dependants as an income stream if you're under age 60 when you pass away and your beneficiary is also under 60.
- You should confirm your eligibility for the deduction with your accountant as well as the amount of deduction that is appropriate for your overall tax situation.

- All contributions to superannuation are preserved until you meet a condition of release. You need to be sure that you do not need access to the amount contributed before you meet a condition of release.
- Tax and other penalties apply if you exceed your concessional contribution limits.
- You can’t claim a tax deduction for contributions you make that are ‘downsizer contributions’.
- Fees may be charged for your superannuation contributions. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your superannuation fund.
- The Government may change superannuation legislation in the future.

Version: 1.06

Superannuation – Salary sacrifice

Salary sacrificing your employment income into superannuation may increase your retirement savings and reduce the amount of income tax you pay.

Benefits

- Investing in superannuation boosts your savings to help meet your retirement goals. Salary sacrifice provides disciplined savings because your salary is automatically directed into your superannuation.
- The after-tax rate of return inside superannuation may be higher than investing outside superannuation. This is because earnings inside superannuation are taxed at a maximum rate of just 15%, whereas earnings from non-superannuation investments are generally taxed at your marginal tax rate which could be higher. This could help your savings to grow faster.
- Salary sacrificed contributions are concessional contributions (along with some other types of contributions such as employer contributions) and are assessed against the concessional contributions cap. These contributions are taxed at up to 15%. Some high income earners may pay an additional 15% tax on all or part of their concessional contributions.
- Your taxable income will reduce which also reduces your income tax liability.
- The additional contributions can help to cover the cost of insurance premiums if you hold insurance inside superannuation.

How it works

Salary sacrifice is an arrangement where you elect to receive part of your future salary as superannuation contributions instead of cash. The amounts sacrificed into superannuation are taxed at up to 15% instead of your marginal tax rate which may be up to 47%.This tax saving could help your retirement savings grow. If you're a high income earner with income from certain sources that is greater than $250,000 (in 2018/19) you may pay an additional 15% tax on all or part of your concessional contributions.

To be effective you can only salary sacrifice salary and other benefits to which you haven't yet accrued or become entitled. This generally means that you need to have the salary sacrifice arrangement in place with your employer before becoming entitled to the salary or wages. For example, if you put a new salary sacrifice arrangement in place today, it cannot cover the salary you earned last week because you are already entitled to that salary.

You need to confirm with your employer that you are able to salary sacrifice because it is not compulsory for employers to facilitate it. If your employer does offer salary sacrifice, you should also check what they require to put the arrangement in place.

It is recommended that you set out the terms of your salary sacrifice arrangement in writing. This should include an agreement on how often the superannuation contributions will be made and confirmation that your other workplace entitlements (such as superannuation guarantee (SG) and termination payments) will not reduce due to the lower cash salary.

Contribution caps

There is a cap on how much can be contributed as concessional contributions each year. The concessional contribution cap for 2018/19 is $25,000.

This cap includes any contributions salary sacrificed but also superannuation guarantee and personal deductible contributions. There are certain other contributions that may also count (eg distributions from superannuation fund reserves).

If the cap is exceeded you will pay tax on the excess at your marginal rate less the 15% already paid within your superannuation fund. Interest penalties will also apply. You can make an election to withdraw the excess from superannuation. If you don't make this election, the excess concessional contribution will also be counted towards the non-concessional contributions cap. Additional tax penalties may apply if you also exceed the non-concessional contribution cap.

Catch up Concessional Contributions

From 1 July 2018, you may be able to accrue your unused concessional contributions and carry these amounts forward to enable you to make concessional contributions in excess of the annual cap in subsequent years. Amounts are carried forward on a five year rolling basis. As the regime only applies to unused amounts accrued since 1 July 2018, the first year you may be eligible to use a carried forward amount will be the 2019/20 financial year. To make use of a carried forward concessional contribution, your total superannuation balance (which includes all superannuation pension and accumulation accounts) cannot exceed $500,000 on the 30 June of the previous financial year. Unused amounts which you have not used within five years cannot be carried forward.

Low Income Superannuation Tax Offset (LISTO)

If you have an adjusted taxable income of less than $37,000 you may receive a LISTO contribution from the Government paid into your superannuation fund equal to 15% of your total concessional superannuation contributions for an income year, capped at $500.

The ATO will determine your eligibility for the Low Income Superannuation Tax Offset and advise your superannuation fund annually.

Risks and Consequences

- Your take-home pay will reduce because of the salary sacrifice arrangement. You need to ensure you continue to have sufficient income to meet your needs.
- Salary sacrifice contributions are reportable superannuation contributions. This means the contribution is not included in your assessable income, but is included on your tax return for the purpose of determining your eligibility to certain Government benefits, concessions and obligations.
- All contributions to superannuation are preserved until you meet a condition of release. You need to be sure that you do not need access to the amount sacrificed until meet one of these conditions.
- The salary sacrifice contributions are added to your taxable component. Tax will be payable if you access these amounts before age 60, if they are paid as a death benefit lump sum to non-tax dependants (eg adult children), or if they are received by an eligible beneficiary as a death benefit income stream where you're under age 60 when you pass away and your beneficiary is also under 60.
- Tax and other penalties apply if you exceed your concessional contribution limits.
- The total amount of superannuation money used to start pensions is subject to a transfer balance cap ($1.6 million in 2018/19). You can retain excess amounts in your accumulation accounts where tax on earnings at up to 15% continues to apply.
- You should confirm your tax situation with your accountant as well as the amount of deduction that is appropriate for your overall tax situation.

- Fees may be charged for your superannuation contributions. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your superannuation fund.
- If you are under the age of 65 (or aged 65 to 74 and meet the work test), you will be able to claim a tax deduction for personal superannuation contributions. This may offer a more suitable alternative depending on your circumstances.
- The Government may change superannuation legislation in the future.

Version: 1.06

Superannuation – Spouse contributions

Making a contribution into your spouse's superannuation increases your spouse's retirement savings and may provide you with an offset to reduce your tax payable.

Benefits

- Investing into your spouse's superannuation boosts your savings to help meet retirement goals.
- The after-tax rate of return inside superannuation may be higher than investing outside superannuation. This is because earnings inside superannuation are taxed at a maximum rate of just 15%, whereas earnings from non-superannuation investments are generally taxed at your marginal tax rate (plus Medicare levy) which could be up to 47%. This could help your savings to grow faster.
- If you make a spouse contribution, you may be eligible for a tax offset to help reduce your tax payable.
- If your spouse is under age pension age (or age 60 if a veteran) his/her superannuation benefits are not assessable by Department of Human Services/Veterans' Affairs when determining any social security entitlement to which either of you are eligible, so your entitlement may be higher.
- The additional contributions can help your spouse cover the cost of insurance premiums if they hold insurance inside superannuation.

How it works

Your spouse must be under age 65 or between 65 and 70 and have met the work test to be eligible to receive a spouse contribution. The work test requires that your spouse has worked at least 40 hours in any 30 consecutive day period in the current financial year. Spouse contributions cannot be made once your spouse reaches age 70. Spouse contributions count towards your spouse's non-concessional contributions cap. As such, they are not taxed upon entry into the fund and form part of the tax-free component of the spouse's account.

Non-concessional contribution caps

There is a cap on how much you can contribute as a non-concessional contribution (NCC) each year. The non-concessional contribution cap for 2018/19 is $100,000.

The 'bring-forward' rule effectively allows you to bring forward up to an additional two years' worth of non-concessional cap and add it to the current year's cap. If eligible, you may be able to contribute up to $300,000 over the three year period. The total bring-forward amount you're able to trigger will reduce if your total superannuation savings are at least equal to $1.4 million on the 30th of June prior to the financial year in which you trigger the bring-forward rule.

The bring-forward rule is automatically triggered if you're eligible and make non-concessional contributions in a financial year that exceed your annual non-concessional limit. Once triggered, your non-concessional contribution cap will not be indexed for the next two years. In addition, you must have total superannuation savings of less than $1.6 million at 30 June to be eligible to make any non-concessional contributions in the following year.

These rules are complex so it is important that you get advice.

If you exceed your NCC cap, the excess contribution may be withdrawn from superannuation, along with any associated earnings within 60 days of the excess being determined by the ATO. The associated earnings will be included in your assessable income and taxed at your marginal tax rate. If you do not make the election to withdraw within 60 days, the excess contribution will be taxed at 47%.

Spouse Tax offset

To be eligible for the spouse tax offset, you and your spouse must both be Australian residents for tax purposes and your contribution must be made from after-tax income.

The maximum tax offset is $540 ($3,000 x 18%). Your eligibility is based on your spouse's income for the financial year in which the contribution is made. If your spouse's income for the financial year is less than $37,000, you will be entitled to a tax offset of up to 18% on the first $3,000 contributed. If your spouse's assessable income is more than $37,000, the 18% tax offset only applies to part of the contribution. The tax offset phases out completely if your spouse's income is $40,000 or more.

Income is the total of your spouse's assessable income, reportable fringe benefits and reportable employer superannuation contributions.

The tax offset will not apply if the spouse receiving the contribution has exceeded their non-concessional contributions cap or their total superannuation balance at 30 June of the previous financial year is above the general transfer balance cap ($1.6 million for 2018/19).

Risks and Consequences

- The contribution into your spouse's superannuation will be preserved until your spouse meets a condition of release. You need to be sure that you do not need access to the amount contributed until your spouse has met a condition of release.
- If you or your spouse exceed your NCC cap, tax penalties can apply.
- If your spouse has a total super balance equal to or greater than the general transfer balance cap ($1.6m in 2018/19) on the prior 30 June, any spouse contribution you make for your spouse will be treated as excess NCC and you will not be able to claim the tax offset for these contributions.
- The total amount of superannuation money used to start pensions will be capped at transfer balance cap ($1.6 million in 2018/19). You can retain excess amounts in your accumulation accounts where tax at up to 15% continues to apply.
- Fees may be charged for the spouse contributions. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your superannuation fund.
- The Government may change superannuation legislation in the future.
- The tax offset can be claimed when you lodge your tax return. Check with a Registered Tax Agent to see if you are eligible.

Version: 1.06

Superannuation – Splitting superannuation contributions

Splitting superannuation contributions to your spouse helps to increase retirement savings in your spouse's name. This can help with future planning and also protect against future legislative changes. In some cases this may also help to increase current Department of Human Services/Veterans' Affairs entitlements.

Benefits

- Your spouse's retirement benefits will increase. This may be particularly beneficial as the limit for each person's retirement income stream balances will be subject to a lifetime transfer balance cap (currently $1.6 million).
- Department of Human Services entitlements may increase if the spouse is under Age Pension age (or under age 60 if a veteran) due to exemptions on the assessment of superannuation accumulation accounts.
- The increased account balance can help your spouse cover the cost of insurance premiums if his or her insurance is held inside superannuation.
- The after-tax rate of return inside superannuation may be higher than investing outside superannuation. This is because earnings inside superannuation are taxed at a maximum rate of just 15%, whereas earnings from non-superannuation investments are generally taxed at marginal tax rates. This helps savings to grow faster.

How it works

Superannuation splitting allows you to split (transfer) your previous year's concessional contributions to your spouse. It is not compulsory for a superannuation fund to offer superannuation splitting, so you will need to check with your fund whether they will allow you to split your contributions.

Only eligible concessional contributions can be split to your spouse – these include superannuation guarantee (SG), salary sacrifice and personal deductible contributions. Non-concessional contributions cannot be split. The maximum amount that can be split is the lesser of:

- 85% of your concessional contributions for the year (15% is retained to pay contributions tax), or
- the concessional contribution cap for the financial year.

To be eligible to receive a contributions split, your spouse must be either under age 65 or, if between their preservation age and 65, must be able to declare that they have not retired (as defined for superannuation purposes).

Your request to split contributions must be made in writing to the trustee of the superannuation fund within 12 months after the end of the financial year that the concessional contributions were made. You can only make one request per year.

The split contributions form part of the taxable component of your spouse's superannuation account. The amounts will not count towards your spouse's contribution caps because they have already counted towards your concessional contribution cap.

Risks and Consequences

- If you have made personal contributions for which you wish to claim a tax deduction, you must lodge a Notice of Intent form with your superannuation fund (and wait for confirmation that they have received the notice) before submitting a valid splitting application form.
- If you are planning to roll over your superannuation savings (to a new fund or to commence an income stream) during the year that contributions have been made, you must lodge your splitting application before rolling your money out of the account.
- Split contributions will be preserved until your spouse meets a condition of release.
- The total amount of superannuation monies used to start retirement phase pensions are subject to a lifetime transfer balance cap. The cap is currently $1.6 million. You can retain excess amounts in your accumulation accounts where tax at up to 15% continues to apply.
- Control will be lost of the portion of money that is transferred.
- Fees may be charged on the transfer into your spouse's superannuation account. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your superannuation fund.
- The government may change superannuation legislation in the future.

Version: 1.06

Tax – Redundancy payments

If your employment is terminated, there are a number of payments you may receive when your employment arrangement comes to an end. Where your termination occurs because of a genuine redundancy, you may be entitled to concessional tax treatment on certain types of payments.

How it works

A genuine redundancy may occur when your employer decides that the job you are doing no longer exists and terminates your employment. A genuine redundancy may also occur where a company you work for closes down. Termination payments made under these circumstances are generally entitled to concessional tax treatment where part of the payment may be tax free. If you simply retire, resign or enter into an agreement for voluntary redundancy, the concessional tax treatment will not apply. You also generally need to be under the age of 65 for your situation to be considered to be a genuine redundancy, and to therefore benefit from the concessional tax rates that may apply.

Your employer is required to provide you with a payment summary within 14 days of making your termination payment. The payment summary sets out the amount paid and the amount of tax withheld.

Your termination payment may include a lump sum for unused leave entitlements you had accrued, and you may also be paid an extra 'redundancy' amount which is determined according to the terms of your employment contract and sometimes workplace legislation. The redundancy amount will be tax-free up to a limit, with any excess being taxed as an employment termination payment (ETP). Unused long service leave and annual leave are subject to different rates of tax.

Unused leave entitlements

In the case of a genuine redundancy, any payments received for unused annual and long service leave are concessionally taxed. These payments are subject to tax at a maximum rate as shown below. These payments are included in your assessable income and can therefore impact your entitlements to certain benefits, concessions or entitlements which may be based on your assessable income.

Type of leave	Service period	Taxation*
Annual leave	Any	100% included in assessable income and taxed at the maximum rate of 30%
Long service leave	To 15 August 1978	5% included in assessable income and taxed at your marginal tax rate
	From 16 August 1978	100% included in assessable income and taxed at the maximum rate of 30%

* Medicare and other levies may also apply

Genuine redundancy tax-free amount

A portion of a genuine redundancy amount (not including the leave payments) will be tax-free if you meet the definition of a genuine redundancy. The tax-free amount is based on the years of completed service with your employer. For 2018/19, the genuine redundancy tax-free amount is calculated as:

$10,399 + ($5,200 x each completed year of service)

If your redundancy amount is less than the result of this formula, it will be entirely tax-free and you only pay tax on the leave payments.

Employment termination payment (ETP)

If your redundancy amount is greater than the tax-free amount, the balance is generally called an Employment Termination Payment (ETP).

Most ETPs consist of only taxable component. However a tax-free component will exist if you commenced working for your employer before 1 July 1983 or you are terminating employment due to invalidity.

Your employer will withhold lump sum tax from the taxable component of the ETP depending on your age and the amount of the ETP. Lump sum tax rates for the taxable component of an ETP in 2018/19 are as follows:

Age at the end of the financial year	Amounts up to $205,000*	Amounts over $205,000*
Under preservation age	30%	45%
Preservation age and over^	15%	45%

* Rates and thresholds apply for 2018/19 financial year. Medicare and other levies may also apply.
^ Applies if payment is received after preservation age or in the year in which preservation age will be reached.

Risks and Consequences

- The taxable component of the ETP is added to your assessable income and may impact your eligibility for certain Government entitlements, concessions and benefits.
- Any payments you receive upon termination of your employment may impact your entitlement to certain social security benefits. You might also need to serve a waiting or other periods in some circumstances, before you become entitled to receive a payment.
- You must receive entitlements paid upon termination in cash. They cannot be automatically rolled into superannuation but if you are eligible, you may be able to make a contribution into superannuation with the benefits you have received.

Version: 1.06

Tax – Small business CGT concessions

Small business owners who sell business assets may be eligible for tax concessions on capital gains and be able to contribute an amount into superannuation to help fund their retirement.

Benefits

- Investing in superannuation boosts your savings to help meet your retirement goals.
- The rate of return inside superannuation may be higher after-tax than investing outside superannuation. This is because earnings inside superannuation are taxed at a maximum rate of just 15%, whereas earnings from non-superannuation investments are generally taxed at your marginal tax rate (plus Medicare levy) which could be up to 47%. This could help your savings to grow faster.
- Your tax-free component will increase. This amount can be withdrawn tax-free at any age and is also tax-free if paid as a death benefit lump sum to dependants (including a person who is a non-tax dependant such as an adult child) after your death.

How it works

Rather than saving for retirement during their working lives, many small business owners instead use surplus funds to grow their business. The CGT cap exists to allow small business owners to make large contributions into superannuation once business assets have been sold.

To be eligible to use the CGT cap, you must first be eligible for a small business CGT tax concession.

Qualifying for the small business CGT tax concessions

To be eligible for the small business CGT tax concessions, the following basic conditions must be met:

- The net value of assets owned by your business and related entities is less than $6 million, or the (aggregated) turnover of the business is less than $2 million each year.
- The asset being sold is being used in running a business or it is held ready to be used in running a business (ie is an active asset).
- If the asset being sold is a share in a company or an interest in a trust, there must be a 'significant individual' and the entity claiming the concession must be a 'CGT concessional stakeholder' of the company or trust.

The following table outlines other CGT tax concessions which are available but which have further eligibility conditions attached.

Concession	Detail
15-year exemption	If the business asset being sold had been owned for at least 15 years, the entire capital gain may be exempt from tax under the 15-year exemption. The entire sale proceeds maybe contributed into superannuation using the CGT cap (up to the lifetime limit).
Retirement exemption	Up to $500,000 (lifetime limit) of assessable capital gain can be exempted from tax using the retirement exemption. If you are under age 55, you must contribute this amount to superannuation. If you are over age 55, you can take it in cash or choose to contribute it to superannuation. The superannuation amount is contributed under the CGT retirement cap. Amounts contributed under the CGT retirement cap reduce you're

	remaining CGT lifetime cap.
Small business 50% active asset reduction	This provides a small business/individual with a 50% reduction to their capital gain. You may also be eligible to apply the small business retirement exemption and/or small business rollover relief to the reduced capital gain amount (provided you meet the relevant criteria).
Small business rollover relief	This allows a person/entity to defer a capital gain arising from the sale of one or more small business asset(s) where a replacement asset is acquired within a certain time period. To be eligible you generally need to meet all the 'basic conditions' for small business CGT concessions, and acquire a replacement asset by the end of the 'replacement asset period'. You still may be able to claim the concession if you do not acquire a replacement asset within this time but some/all of the capital gain may be assessable.

If the 15 year exemption applies, this reduces the assessable gain to zero and no further concessions are applied.

If ineligible for the 15 year exemption, the other concessions will apply to reduce the assessable gain. For individuals and trust beneficiaries, the standard CGT discount (for individual taxpayers) is applied to the assessable capital gain. For all eligible individuals, the 50% active asset reduction is then applied, followed by the retirement exemption. It is not compulsory to claim 50% active asset reduction, and in fact, it can sometimes be beneficial not to claim it as it can reduce the amount that can be contributed into superannuation using the CGT cap.

Contributing the proceeds into super

The amount you can contribute into superannuation is limited by contribution caps. The CGT cap enables small business owners who are eligible for CGT tax concessions to contribute larger amounts into superannuation closer to retirement.

The CGT cap provides a lifetime limit of $1.480 million for 2018/19 (the cap is indexed). The $1.480 million limit applies to total contributions made from the following amounts:

- up to $500,000 (unindexed) of capital gains which have been exempted using the retirement exemption
- the sale proceeds from an asset that is eligible for the 15-year exemption
- an asset that would otherwise qualify for the 15-year exemption concession but is a pre-CGT asset (purchased before 20 September 1985) or was sold for a capital loss.

Depending on your individual circumstances, there are certain timing requirements that must be adhered to when applying Small Business CGT concessions and making super contributions under the CGT cap. At the time of making the contribution you need to complete a 'Capital Gains Tax election form' and give it to the superannuation fund on or before the contribution is made.

Risks and Consequences

- As the CGT cap is a lifetime limit, in some cases it may be beneficial to use the non-concessional contribution cap first and retain the CGT cap for future use. However you should consider your eligibility to make non-concessional contributions in the future under the contribution rules.
- The eligibility criteria for the small business CGT concessions are complex and you must seek tax advice to determine your eligibility.
- Time limits apply to be eligible to use the small business CGT concessions and the CGT cap.
- If you exceed your CGT cap, the excess contributions will count towards your non-concessional contribution cap. Tax penalties may apply if you exceed your non-concessional contribution cap.

- If you are age 65 – 74, you need to satisfy the work test in the year the contribution is made to superannuation. The work test means you have been gainfully employed for at least 40 hours over 30 consecutive days in the financial year the contribution is made.
- All contributions to superannuation are preserved until you meet a condition of release.
- Fees may be charged for your superannuation contributions. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your superannuation fund.

Version: 1.06

Investment Concepts – Child savings plans

Investing on behalf of a child can help with the child's future. But before investing money for a child, it is important to understand who will be responsible for paying tax on the investment income and what tax rates might apply.

Benefits

- Saving for a child can help to fund the cost of education or other life goals for the child to give them a good head start.
- Understanding the tax implications of children's investments can help you choose and structure an appropriate investment.

How it works

Investing on behalf of a child can be complex because a child often can't hold an investment in their own name and penalty tax can apply to the investment income.

If money is invested for a child in a bank account, term deposit, managed fund or shares, the owner of the investment will usually need to be a parent or guardian 'as trustee' for the child. The taxation of the investment income will largely depend on who is using the income from the investment.

If the trustee of the investment (i.e. the parent or guardian) is the source of the money and also uses the investment income, they will generally be deemed to be the owner and will be required to include the income in their tax return. Capital gains tax may apply if the trustee transfers the investment into the name of the child once they become an adult.

However, if the trustee reinvests the investment income for the future benefit of the child, then the child may be deemed to be the beneficial owner. In this situation, the child will pay tax on the income at penalty tax rates and capital gains tax may not apply when the investment is ultimately transferred into the name of the child.

Child penalty tax rates

Penalty tax rates apply to income earned by a child except in limited circumstances:

- if the income is excepted income – which includes employment income or earnings on money inherited from a deceased person's estate or family breakdown
- if the child is an excepted person – which includes a child who is working full time or is married, permanently disabled or permanently blind.

If applied, penalty tax rates are as per the following table:

Child's taxable income	Penalty tax rates
$0 - $416	Nil
$417 - $1,307	66%* of each $1 over $416
$1,308 and over	45%* on the entire income

* Medicare and other levies may also apply.

This means a child can only earn up to $416 in a year before all income is effectively taxed at the top marginal tax rate. This is to stop parents diverting income into a child's name just for tax purposes.

Other investment options

Some investment bonds and education savings plans have been specifically designed for children and may be simpler to use for investing from a tax point of view. Both of these products are 'tax paid' investments, which means there are generally no tax implications for the child or the trustee.

The earnings within an Investment bond are taxed within the bond at the rate of 30%. After 10 years, the bond is considered to be fully tax paid and can be withdrawn without any tax implications to the investor.

Additional contributions can be made to the bond each year but if a contribution is more than 125% of the previous year's contribution the 10 year period will recommence for the whole investment bond (the 125% rule).

An investment bond called a 'Child Advancement Policy' is held in the name of an adult on behalf of a child. The child must be under age 16 at the time of application and the adult can nominate the age that the investment converts to the child's name as owner. If no date is nominated, the bond will usually transfer to the child upon turning age 25.

Education savings plan / scholarship plan are also tax paid investments with earnings taxed within the plan at the rate of 30%. This tax may be refunded if the money is ultimately used for the child's education expenses, such as uniforms, travel costs, fees, books, living away from home allowance and residential boarding expenses. Withdrawals within the first 10 years may be taxable to the child, but tax offsets apply to reduce this tax.

Risks and Consequences

- You should seek tax advice to confirm the tax treatment of child investments.
- If you are a Department of Human Services/Veterans' Affairs customer and you make an investment on behalf of a child, you are required to let Department of Human Services/Veterans' Affairs know as it may impact your entitlement under gifting rules.
- The decision on whose name to invest in also has implications for who has control over the money.
- If investments are held in your name on behalf of a child or grandchild you may wish to seek legal advice to ensure that child inherits the money upon your death, or that another person is nominated as trustee to manage the money on the child's behalf.

Version: 1.06

Investment Concepts – Investment risks

All investments carry some degree of risk. As a general rule, higher risk investments have a higher potential return, but higher risk also means an increased chance that the investment will not achieve that return, particularly over the short term.

This risk/return trade-off is important. You need to ensure that you are comfortable with the level of risk taken so that it can help you achieve your financial goals but still allow you to sleep at night without worrying about the impact of a financial downturn.

The key investment risks you should be aware of are listed below.

Diversification risk

Diversification risk is the risk that if you put all of your assets into one asset class (one 'basket') then your portfolio is at risk of being adversely affected if that asset class falls in value.

The major asset classes include Australian and international shares, listed property, Australian and international fixed interest and cash. Every asset class has its bad years, but when one asset class is performing poorly, another asset class will usually be doing well.

Diversifying your portfolio across these major asset classes means that when one asset class falls in value, it can be offset by other asset classes that are performing well at that time. It also means that if one asset performs poorly it only affects a portion of your overall portfolio.

Inflation risk

Inflation risk is the possibility that the return on your investments will not keep pace with inflation. If this happens, your 'real wealth' declines over time and you may not be able to meet your long-term income needs.

Including shares and property in your portfolio aims to produce positive real returns over the longer term. This is because shares and property are 'growth' assets which, historically, have outperformed inflation over time.

Fund manager risk

There is a possibility that the fund manager you invest with will underperform over an extended period of time. This risk can be minimised by spreading your investments over several fund managers. If one fund manager underperforms it can be offset by other fund managers who may have strong performance at that time.

Currency risk

There is a risk that international investments can be negatively impacted by exchange rate fluctuations. Specifically, as the Australian dollar rises, the value of international share holdings will fall. If the Australian dollar falls, the value of international share holdings will increase.

Investing in a variety of regions attempts to reduce currency risk as your international share exposure will be held in different currencies. You can also consider investment options that (for a fee) hedge against adverse currency movements.

Liquidity risk

Liquidity risk is the risk of not being able to access your funds when you need them (such as in an emergency). This risk can be reduced by using cash reserves that can be accessed immediately in the case of emergency. Alternatively you could invest in managed funds that can generally be accessed within 5 to 15 days, although you may incur a capital loss if the markets have performed poorly.

Regulatory risk

There is always a risk that the government will change legislation in the future to the detriment of your investments. This risk is difficult to plan for and we find it more appropriate to develop strategies based on current legislation but including flexibility into your portfolio can minimise the worry of this risk.

Market risk

Market risk is where an investor experiences losses because of factors that affect the overall performance of the financial markets.

Market risk generally cannot be eliminated through diversification because it occurs across all asset classes. Examples include negative investor sentiment, natural disaster, recessions, economic impacts and political changes that affect market performance. Different asset classes have different levels of market risk.

Market risk can be reduced by investing for an appropriate time-frame for each particular asset class as this gives you time to ride out any downturns.

Market timing risk

The possibility your investment may be sold at a time when the sale price is at a low-point or purchased when the sale price is at a high-point.

Interest rate risk

The possibility your investment will be adversely impacted by a fall or rise in interest rates.

Hedging risk

A technique designed to reduce the risk from part of an investment portfolio often by using derivatives. While hedging can reduce losses, it also has a cost and therefore can reduce profits.

Derivatives risk

Where financial derivatives are used as an alternative to directly owning or selling underlying assets in order to manage risk and/or enhance returns. Risks associated with derivatives can include; the value of the derivative declining to zero; the value of the derivative not moving in line with the underlying asset and, the derivative may be difficult or costly to reverse.

Opportunity cost

The investment return you may forego from an asset as a result of investing in your preferred asset. That is, there is a risk the preferred asset you invest in may not return more than the second-choice (next best alternative) asset you did not invest in.

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Investment Concepts – Dollar cost averaging

Dollar cost averaging involves investing a set amount of money at regular intervals. By investing this way you are not attempting to pick the lows or highs of the market but rather investing a fixed dollar amount regardless of investment market trends.

Benefits

- By regularly investing in an investment market, you are not relying on timing strategies aimed at picking when a market has bottomed or peaked. Dollar cost averaging imposes a helpful investment discipline by completely ignoring timing issues
- Beneficial when markets may fall. This is because only a fraction of the total amount to be invested is exposed to declines in the market. Also, when the market price falls, your regular investment amount will purchase more investment shares or units, and
- Providing a sound savings regime and ideal investment strategy for people with a regular income but without large sums to invest.

How it works

The following example shows a dollar cost averaged share investment. A fixed amount of $1,000 was invested in a share each month as the market price fell and then recovered to its original value.

Month	Amount invested	Share price	Units purchased
1	$1,000	$20.00	50
2	$1,000	$20.00	66
3	$1,000	$10.00	100
4	$1,000	$15.00	66
5	$1,000	$15.00	50
Total	**$5,000**		**332**

In this example, by dollar cost averaging into the market, the shares were purchased at an average cost of $15.06 ($5,000 / 332). After five months the investment was valued at $6,640 (332 shares at $20 per share), a profit of $1,640. If the shares had been purchased at the commencement of the five months (ie at $20), there would not have been any gain on the investment when the shares returned to their original value at the end of the five-month period. The $5,000 invested would still have the same value, ignoring any dividend income.

Risks and Consequences

- When market prices are trending upwards, a portfolio purchased up front will do better than the portfolio purchased using dollar cost averaging. This is because the full gain on the price rise is captured by the full amount of money invested up front.
- Over a time period in which prices fall steadily, a dollar cost averaging portfolio will still lose money. Nonetheless, dollar cost averaging will generally lose less than an upfront purchased portfolio.

Version: 1.06

Investment Concepts – Insurance/investment bonds

An insurance bond (also called an investment bond) is a managed fund investment provided by a life company. Earnings from the bond are taxed by the life company (or friendly society) at the rate of 30%. This may be lower than your marginal tax rate.

Benefits

- Insurance bonds are a 'set and forget' type of investment, because earnings generally do not have to be included in your tax return.
- The tax paid on your investment earnings will be less than your marginal tax rate if your marginal tax rate is higher than 30%. This helps to increase your overall return on investment to boost your wealth accumulation.
- Insurance bonds can provide estate planning benefits because the bond can be paid directly to a nominated beneficiary instead of having it go through your estate.
- access to a range of investment options across a range of asset classes
- can be established by parents, grandparents, godparents, uncles and aunts to provide a child with a helping hand at the start of their adult life

How it works

Insurance bonds are generally considered 'tax paid' investments. The life insurance company pays tax on earnings within the bond and, after 10 years, you are able to withdraw the value of the bond with no further tax payable. This makes an insurance bond a simple investment structure because there is no requirement to declare interest or capital gains in your tax return.

Withdrawals can be made from an insurance bond at any time, however you may be liable to pay some tax if a withdrawal is made within 10 years from commencement of the insurance bond.

Upon your death, the balance of your account is paid to the nominated beneficiary or your estate with no tax implications.

Taxation

All earnings in an investment bond are taxed at the life insurance company rate of 30%. The life insurance company may also receive the benefit of franking credits and tax deductions that may reduce this effective tax rate.

No amount is included in your assessable income unless a withdrawal is made within 10 years from the date of commencement, in which case you may be eligible for a tax offset on a portion of the assessable income.

Tax offset

If you make a withdrawal within the 10 year period a portion of the investment growth is included in your assessable income as shown in the table below:

Withdrawal	Amount of growth included in tax return
Within 8 years	Full amount
Between 8 and 9 years	Two-thirds

Between 9 and 10 years	One-third

You are then entitled to a 30% tax offset on this assessable portion to allow for the tax already paid by the life insurance company. This offset helps to reduce your tax payable on taxable income, but cannot be used to pay the Medicare levy or be refunded as cash.

This means:
- If your marginal tax rate is higher than 30%, you will generally benefit from holding the bond for the full 10 years before making a withdrawal to take advantage of the lower tax rate.
- If your marginal tax rate is lower than 30%, you could benefit from withdrawing some or all of the bond before 10 years and as a result receive a tax offset that can reduce tax on your other income.

Additional contributions and the 125% rule

Insurance bonds provide flexibility for you to make additional contributions at any time, but it is important to note that if your contributions in any year are more than 125% of the previous year's contribution, this will restart the commencement date under the 10 year rule.

For example, if you make a contribution of $1,000 in one year, the 10 year period will recommence if the next year's contribution is more than $1,250. However, if in one year you make no contribution, the next year's and future contributions would be $0. In this case, contributions could still be made but the 10 year period would recommence.

Estate planning and insurance bonds

An insurance bond is a life policy. The death of the life insured will trigger the payment of bond either to the nominated beneficiary or to the policy owner if no beneficiary is nominated. If the life insured is the policy owner and there is no nominated beneficiary, the balance will be paid to their estate. Any amount received as a result of the death of the life insured is completely tax-free, irrespective of the 10 year rule.

Department of Human Services assessment

Insurance bonds are considered financial assets for Department of Human Services/Veterans' Affairs purposes, which means the full account value is asset tested and deemed under the income test.

Risks and Consequences

- Investing into an insurance bond can reduce your cash flow because all earning are captured in the bond as growth.
- If the life insurance tax rate of 30% is higher than your marginal tax rate, investing into an insurance bond may result more tax being paid than if you invested into other investments.
- Withdrawals within the 10 year period that are assessable to you can impact your entitlement to certain tax offsets or other benefits or liabilities.
- Fees may be charged on investments. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your selected investment.
- The Government may change tax legislation in the future.

Version: 1.06

Gearing – Costs and risks of gearing

Borrowing for investment purposes is also known as 'gearing'. The aim of gearing is to increase your investment return by investing borrowed funds in addition to your own capital.

Although gearing can deliver benefits, the risks associated with gearing may mean it is unsuitable for you. It is essential to carefully consider these risks before proceeding with a gearing strategy.

Benefits

- The loan enables you to increase the size of your investment portfolio.
- A larger portfolio enables you to increase the diversity of investments or buy larger assets such as property.
- You may be eligible to claim a tax deduction for some or all of the cost of the loan to help offset the cost of the borrowing or to reduce tax on other income.

How it works

Gearing involves taking out a loan to invest in growth investments such as shares or property.

Borrowing gives you more money to invest which provides you with greater potential to diversify and build wealth. However it is important to remember that whilst investing more money gives you opportunity to increase capital gains, it also provides potential to increase losses if the investments do not perform well.

Interest and related borrowing costs are usually tax-deductible if the loan is used to acquire an income producing asset. If you are repaying the amount borrowed (the principal) as well as interest, only the interest amount is tax-deductible. Although the tax benefits of gearing can seem attractive, it is important that the primary purpose of implementing a gearing strategy is to maximise your wealth accumulation.

Gearing is often discussed as negative, positive or neutral, which refers to the cost of the investment (e.g. interest repayments and other investment expenses) relative to the investment income generated (e.g. dividends, rent):

- Negative gearing – where the interest payable on borrowed funds and any expenses incurred in relation to that investment exceeds the income received from the investment. The investor must have surplus income from other sources over and above their day to day living expenses to meet the shortfall.
- Positive gearing – where the expenses incurred in relation to the investment are less than the income generated. In this case the strategy is 'self-funded' because the costs of the investment are covered by the investment income and you are not required to meet these costs from your own cash flow. Additional tax will generally be payable.
- Neutral gearing – where the costs of the loan are approximately the same as the income generated.

Gearing is generally only appropriate for investors who have a growth oriented risk profile. For gearing to be effective, the overall return from investments should exceed the cost of the loan and other expenses over the life of the investment. This will typically only be achieved through investing in growth oriented assets such as shares and property. So you need to be comfortable not only with the risk of borrowing but also with the risk of investing in these asset types.

You should also meet all of the following criteria before considering gearing:

- have sufficient disposable income to comfortably meet loan repayments, even if interest rates increase
- have life insurance in place for a value equal to the outstanding loan, or have sufficient liquid assets to repay the loan or continue repayments in the event of illness or death, and
- have a strategy in place to repay the outstanding loan at some point in the future.

Gearing can magnify returns but will also magnify losses

Gearing can magnify investment returns, as shown in Example 1 :
Example 1

Starting Values	Geared	Non-Geared
Investor Equity	$40,000	$40,000
Amount borrowed	$60,000	$0
Total Investment	$100,000	$40,000
Market rises 10%		
Value of investment	$110,000	$44,000
Loan outstanding	-$60,000	$0
Investor's Equity	$50,000	$44,000
***GAIN* in Investor's Equity**	**25%**	**10%**

However, gearing will also magnify losses, as shown in Example 2:
Example 2

Starting Values	Geared	Non-Geared
Investor Equity	$40,000	$40,000
Amount borrowed	$60,000	$0
Total Investment	$100,000	$40,000
Market falls 10%		
Value of investment	$90,000	$36,000
Loan outstanding	-$60,000	$0
Investor's Equity	$30,000	$36,000
***LOSS* in Investor's Equity**	**-25%**	**-10%**

In addition, if the income return from the geared part of the investment (together with tax benefit) is less than the interest cost from the loan and any other associated costs, then this cash flow shortfall will reduce your overall return.

Gearing is a long-term strategy

Gearing should only be considered as a long-term strategy. This is because of the greater level of market volatility associated with the value of growth assets such as shares and property. Investors should have an investment time horizon of at least 7 years. If you have to cancel a gearing strategy sooner than the recommended time frame you may find that the values of your assets are lower than when you established the facility.

Wealth protection insurance is a necessity

Wealth protection insurance is important for everyone. However, wealth protection is particularly important when you implement a gearing strategy.

- Income protection insurance can help you meet investment expenses such as interest repayments on your loan in the event that you suffer an illness or injury that prevents you from working for an extended period of time.
- Total and permanent disability (TPD) cover can help you repay the loan in the event that you are unable to work again due to ill health.
- Term life cover can help your dependants repay any outstanding debt in the event of your untimely death.
- Critical illness cover can help you meet interest repayments in the event that you suffer a specified illness or injury.
- Note that wealth protection insurance will not protect your income where your income is reduced for reasons other than illness or injury.

Risks and Consequences

- Tax advantages from negative gearing should never be the sole reason for establishing a gearing strategy.
- You should ensure your employment and cash flow are secure so that you aren't forced to sell some or all of your investment portfolio at a time when the markets are down.
- An unforeseen event, such as injury or illness that prevents you from working, or a change in employment circumstances, may make it difficult to cover investment expenses including loan repayments. The impact on your investment portfolio can be reduced by incorporating wealth protection measures, including Income Protection, Critical Illness Cover and Total & Permanent Disability Cover.
- You should consider the impact of a rise in interest rates or a reduction in dividends, distributions, or rental income from the investment. You should ensure you have sufficient cash flow to absorb interest rate increases and investment income decreases.
- The value of your investment portfolio may fall in value to a point where the sale proceeds are not sufficient to repay the debt. So even though you have been entitled to tax deductions over time, it is possible that you could end up carrying a debt once the investment portfolio has been sold.
- If the income return from the geared part of the investment is less than the costs associated with the investment (including your borrowing costs), then this shortfall will:
    - Reduce your overall gain (where there has been a capital gain), or
    - Increase your overall loss (where there has been a capital loss)
- Legislation may change in the future in relation to tax deductibility of interest payments.

Version: 1.06

Gearing – Costs and risks of margin lending

Margin lending is a form of gearing. Gearing involves borrowing money for investment purposes. The aim of gearing is to increase your investment return and wealth accumulation by investing borrowed funds in addition to your own capital.

Although gearing can deliver benefits, the risks associated with gearing may mean it is unsuitable for you. It is essential to carefully consider these risks before proceeding with a gearing strategy.

Benefits

- The loan enables you to increase the size of your investment portfolio.
- A larger portfolio enables you to increase the diversity of investments.
- You may be eligible to claim a tax deduction for some or all of the cost of the loan to help offset the cost of the borrowing or to reduce tax on other income.

How it works

Borrowing money to invest is called gearing. Margin lending is a type of gearing facility where you use assets such as shares, managed funds or cash as security to borrow funds.

The amount you borrow is limited to a percentage of the investments that have been used as security, which may be a combination of investments you already owned, and investments bought with the borrowed funds. This percentage is known as the Loan to Value Ratio (LVR). Most margin lending providers allow an LVR of up to around 70%. This means that if you already had investments valued at $30,000 (to use as security) you could borrow up to $70,000 to buy additional investments using a margin loan. The loan is then secured over the whole portfolio. The loan amount represents 70% of the total investment.

Gearing is generally only appropriate for investors who have a growth oriented risk profile. For gearing to be effective, the overall return from investments should exceed the costs of the investment, including the cost of the loan. This will typically only be achieved through investing in growth oriented assets such as shares and property. So you need to be comfortable not only with the risk of borrowing but also with the risk of investing in these asset types, including an increased level of fluctuation in the value of these types of investments.

You should also meet all of the following criteria before considering gearing:

- have a long-term investment timeframe of at least five to seven years
- have sufficient disposable income to comfortably meet interest costs as well as any margin calls (repayments) if the investment value falls (see below), and
- have a strategy in place to repay the outstanding loan at some point in the future.

As with any debt, it is important for you to have appropriate insurance cover to repay the debt or cover the ongoing investment expenses in the event of death, serious illness or total and permanent disablement.

Features of a margin loan

Each margin lender has a list of approved investments where the borrowed money and the assets offered as security can be invested. These generally include managed funds and shares listed on the ASX.

The margin lender will set a 'lending ratio'. For example, if the lending ratio is 70% and you have $30,000 of your own money to invest you will be able to borrow up to $70,000 to invest.

The lending ratio may vary according to the type of investment. For example, blue-chip shares and many managed funds often have higher lending ratios of 65-75%, whilst higher risk assets such as small Australian companies may have lending ratios of only 40-50%.

Instalment gearing

A margin loan can be drawn as a lump sum or in instalments. A lump sum margin loan provides you with a lump sum to invest. An instalment margin loan lends you a smaller amount on a regular basis, which you use to add to your own contributions to gradually buy investments. An instalment margin loan may reduce your risk and provide benefits from dollar cost averaging. Dollar cost averaging involves investing a set amount of money at regular intervals. By investing this way you are not attempting to pick the lows or highs of the market but rather investing a fixed dollar amount regardless of investment market trends.

Double gearing

Double gearing involves borrowing funds, and using those funds to purchase investments. The investments are then used as security for further borrowing via a margin loan.

A double gearing strategy increases both the total amount of your debt and the amount you invest. As a result, a double gearing strategy involves more risk, as any investment gains and investment losses will be magnified significantly more than a standard gearing strategy. With this strategy, it is important to know that you will be responsible for the ongoing obligations for both loans. Any losses within your investment portfolio may affect your ability repay these loans. This may impact the viability of your investment strategy.

Margin calls

A margin call can occur if your loan balance exceeds your maximum loan limit (i.e. when the lender's maximum Loan to Value Ratio (LVR) is exceeded). This may happen as a result of market downturn which causes your portfolio value to fall or if interest has accumulated on your loan to the point that the LVR is exceeded.

A margin call is a demand from the lender that you take action to restore your position to an acceptable LVR.
To meet a margin call, you will be required to:

- repay part of the loan so that the lending ratio is restored, or
- lodge additional investments as security to increase the total portfolio value, or
- sell part of the portfolio and use the proceeds to repay part of the loan.

For example:

> Hugh commences an investment portfolio, comprised of $35,000 of his own funds, and $65,000 from a margin loan. The total investment amount is $100,000. Hugh's actual LVR is 65%. The lender's maximum LVR is 70%.

The market falls in value and Hugh's investment portfolio reduces in value to $80,000. The lender's maximum LVR continues to be 70%, so now that the total portfolio value has fallen, Hugh's loan cannot exceed $56,000. Hugh will receive a margin call requiring him to reduce the actual LVR back below the lender's maximum limit of 70%.

Hugh must take action. He could do one of the following:

- repay $9,000 of the margin loan (from cash held outside the margin loan facility)
- lodge additional investments of $13,000 to the margin loan facility
- sell $30,000 of the margin loan's portfolio to repay part of the margin loan

If you do not meet the margin call, the lender can sell some of the investments to meet it.

Selling assets to meet a margin call may result in a capital loss. Therefore to reduce the risk of a margin call occurring, consider borrowing so that there is a generous buffer between the lender's LVR and your actual LVR. For example, if your LVR was 50%, and the maximum LVR allowed is 70%, your assets would need to fall by over 30% to trigger a margin call.

Risks and Consequences

- Tax advantages from negative gearing should never be the sole reason for establishing a gearing strategy.
- You should ensure your employment and cash flow are secure so that you aren't forced to sell some or your entire investment portfolio at a time when the markets are down.
- An unforeseen event, such as injury or illness that prevents you from working, or a change in employment circumstances, may make it difficult to meet interest repayments. The risk of losing income because of injury or illness can be reduced by incorporating wealth protection measures, including Income Protection, Critical Illness Cover and Total & Permanent Disability Cover.
- Although margin lending provides the potential for increased capital gains when markets are rising, it also has potential for increased losses when markets are falling.
- A margin call could force you or allow your lender to sell some or all of your investment portfolio at a time when the markets are down, thereby creating a loss. It is important that you ensure your employment and cash flow are secure to avoid this situation and consider borrowing so that there is a generous buffer between the lender's LVR and your actual LVR.
- You should consider the impact of a rise in interest rates or a reduction in dividends, distributions, or other income from the investment. You should ensure you have sufficient cash flow to absorb interest rate increases and investment income decreases.
- The value of your investment portfolio may fall in value to a point where the sale proceeds are not sufficient to repay the debt. So even though you have been entitled to tax deductions over time, it is possible that you could end up carrying a debt once the investment portfolio has been sold.
- Double gearing involves more risk, as any investment losses will be magnified significantly more than a standard gearing strategy. Losses within your investment portfolio may affect your ability repay the loans used to double gear. You will continue to be responsible for the ongoing obligations for both loans, regardless of any investment losses.
- Legislation may change in the future in relation to tax deductibility of interest payments.

Version: 1.06

Retirement Income – Account based pensions

Account based pensions may provide tax-effective, regular income to help meet your income needs using your superannuation savings.

Please note that if you're starting a 'transition to retirement' pension and haven't met a full condition of release, different rules apply to these pensions. You should refer to the 'Transition to retirement' Understanding Series for more information.

Benefits

- Pension income you receive is tax-free if you are aged 60 or over (and paid from a taxed super fund).
- Some of the pension income may be taxable if you are under age 60. You may be entitled to a 15% tax offset on the taxable portion of your pension payments in some circumstances.
- You will be required to receive a minimum amount from your pension each year, which is based on your age.
- You retain flexibility by continuing to have a wide range of investment options and the ability to stop the pension at any time.
- You can nominate eligible beneficiaries to receive the remaining benefits upon your death.

How it works

An account based pension is an income stream paid from a superannuation fund. To commence an account-based pension, you first need to meet a full condition of release or already have unrestricted non-preserved funds in your superannuation account. Full conditions of release include circumstances such as meeting the retirement definition for superannuation purposes, attaining age 65, and certain situations where you're classified as permanently disabled.

Account based pensions may be tax-effective because:

- Pension income paid to you from age 60 is not taxable (from a taxed fund).
- Taxable pension income paid to you between your preservation age and age 60, or due to permanent disability, is eligible for a 15% tax offset.
- Within the pension account, all earnings and capital gains from investments are tax exempt. This can boost the effective returns compared to other similar investments you may own personally.

Your pension account balance will increase and decrease over time due to factors such as positive or negative market movements, pension payments, fees and charges. These factors ultimately determine how long your account based pension will last.

Pension transfer balance cap

The total amount of superannuation money that you can transfer to a tax-free superannuation income streams is subject to a lifetime cap. In 2018/19 the general cap is $1.6 million (and may be indexed in future years). Superannuation savings in excess of the cap can be retained in your accumulation accounts where tax at the concessional rate of up to 15% on earnings continues to apply.

Pensions assessed under the transfer balance cap rules include:

- Pensions you have commenced after you have met a full condition of release

- Death benefit pensions of which you're a recipient
- Defined benefit income streams (such as those paid from Government super funds), and
- Certain other types of superannuation income streams.

If you're receiving a transition to retirement pension, there are also circumstances where this type of pension will commence to be assessed under these rules.

Please refer to the 'Transition to Retirement Pension' Understanding Series for further information.

If the amount transferred to tax-free superannuation pensions exceeds the cap, an excess transfser balance occurs. This would exist for example, if the cap was $1.6 million and you commenced a pension with $1.8 million. In this case, you would receive a credit for $1.8 million, and would have a $200,000 excess transfer balance amount.

In the case of an excess, it will be necessary to:

- reduce the amount held in pension phase (e.g. a partial commutation) and
- pay excess transfer balance tax.

Please refer to the 'Transfer Balance Cap' Understanding Series for further information.

Pension income

An account based pension is very flexible, allowing you to vary the amount of income you take. One of the few requirements is that you must take at least a minimum amount of income each year. There is no maximum and additional lump sums can be withdrawn at any time.

When you commence your pension it is calculated based on your age at that time, and your account balance. The minimum pension amount is then recalculated every 1 July based on your age and account balance at that time.

Your age on 1 July	Minimum for 2018/19
Under 65	4%
65 to 74	5%
75 to 79	6%
80 to 84	7%
85 to 89	9%
90 to 94	11%
95 or older	14%

Taxation of your pension payments

Your account based pension may be made up of a taxable and a tax-free component. Generally employer contributions and amounts you have salary sacrificed, personal deductions that you've claimed a personal tax deduction for, and any investment returns earned by your fund form part of the taxable component. Other amounts, such as after tax non-concessional contributions and spouse contributions, make up your tax-free component.

When you commence an account based pension, the tax components of the pension reflect the tax components in the same proportions of your super account just before you commenced the pension. These tax components are fixed at commencement.

All future pension payments, or any lump sum commutations you take from your pension, are split in the same proportions. For example, if your account balance at commencement consisted of $80,000 taxable and $20,000 tax-free, then 80% of all pension payments and lump sum withdrawals would also be from the taxable component.

Whilst you are under age 60 (but have reached your preservation age), pension payments from the taxable component are included in your assessable income with a 15% tax offset to help reduce your tax. This treatment may also apply if you are under your preservation age and commenced your pension under the permanent incapacity condition of release. Once you turn age 60, all pension income is tax free (from a taxed fund).

Department of Human Services

Account based pensions are assessed under the deeming rules for the social security income test for income support payments such as Age Pension, Service Pension, Disability Support Pension, and Carers Payment. This assessment also applies for some other payments and allowances. This means the assessable income from your pension account is calculated using an assumed rate of earnings, known as a deeming rate (set by the Government). The actual pension payments you receive may be more or less than the deeming rate.

However, if you commenced your account based pension before 1 January 2015 and have been continuously receiving an 'income support payment' from the Department of Human Services or Veterans' Affairs (DVA) since 31 December 2014, the assessable income from your account based pension may continue to be calculated under the 'deductible amount' rules. These rules may be more favourable as only a portion of the pension payment (above the calculated 'deductible amount') is assessed. If you start a new pension, which includes restarting your existing pension, or switching to a new pension provider, or your Department of Human Services/DVA entitlements reduce to nil for any period, your account based pension will revert to deeming rules to determine your future income support entitlements.

Regardless of when your account based pension commenced, lump sums withdrawn do not count as income for Department of Human Services/DVA purposes. However if your account based pension income is determined under the 'deductible rules' lump sum withdrawals may impact the pension's deductible amount going forward. This may in turn impact the amount of income assessed under the income test.

The account balance of an account based pension is assessed as an assessable asset.

Risks and Consequences

- If you have made personal superannuation contributions for which you wish to claim a tax deduction, you must lodge a Notice of Intent form with your superannuation fund (and wait for confirmation that they have received the notice) prior to commencing an account based pension or rolling your funds to another provider to commence an account based pension.
- In the financial year that you either start or stop your account based pension, the minimum pension required for that financial year is pro-rated to reflect the number of days in the financial year that your pension was or will be running. If the pension is commenced in June, there is no mandated minimum pension payment in that financial year.

- If you do not take the required minimum income, tax will apply on earnings of the account for the whole year.
- Your account based pension is not guaranteed and pension payments can only be made while there are funds in your account. There is a risk that your pension income may cease (or reduce) if you draw your income too fast or if investment returns are poor.
- Upon death, any remaining account balance is paid to any valid beneficiary you have nominated, or to your estate. If you haven't made a valid binding beneficiary nomination, the trustee of your super fund will decide to whom to pay the benefit.
- If you are a Department of Human Services/DVA customer, you are required to notify the Department of Human Services/DVA within 14 days about any changes to your situation, including the commencement or cessation of an account based pension, significant changes in the account balance, or any lump sum withdrawals you make from your pension as it may affect your payment.
- If you have an existing account-based pension which is assessed by the Department of Human Services/DVA under the 'deductible amount' rules, switching to a new account-based pension will trigger a shift to deeming rules. In some circumstances this may be less favourable under the income test and can affect your Department of Human Services/DVA entitlements as well as aged care fees (if applicable).
- If you transfer an amount in excess of your available transfer balance cap to an account based pension, it will be necessary to commute (reduce) your pension by the amount of the excess, as well as associated earnings on the excess amount. The commuted amount can either be rolled to the accumulation phase of superannuation where earnings are taxed at up to 15%. Alternatively you can withdraw the money from the superannuation system. You will be liable for excess transfer balance tax. If you don't provide this instruction, the ATO will direct your pension provided to take the necessary steps.
- You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your superannuation fund.

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Retirement Income – Transition to Retirement Pension

A ‘transition to retirement’ (TTR) pension may enable you to use your accumulated superannuation savings to supplement your employment income before you are fully retired.

Benefits

- You could maintain your current lifestyle while also reducing your working hours.
- You retain flexibility by continuing to have a wide range of investment options and the ability to stop the pension at any time.

How it works

Once you reach your ‘preservation age’, you’re generally eligible to start what is commonly referred to as a ‘transition to retirement’ (TTR) pension from your accumulated superannuation savings. A TTR pension is non-commutable which means, until you meet another condition of release (such as retiring or reaching age 65), you won’t be able to make lump sum withdrawals, and your annual income payments will be capped at 10% of the account balance. Your annual pension payments must be at least 4% of your account balance.

Preservation age based on date of birth	
Date of birth	**Preservation age**
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
From 1 July 1964	60

Investment returns (including capital gains) from investments held in a TTR pension are taxed at up to 15% as it is considered to be in pre-retirement phase.

Your TTR pension account balance will increase with investment earnings and decrease because of pension payments, negative returns, fees, tax and charges. These factors ultimately determine how long your TTR pension will last.

Pension income

TTR pensions are flexible, as you can vary the amount of income you take each year. But until you meet a full condition of release you will be limited to taking between 4% and 10% of the balance at commencement (in the first year) or at 1 July in each subsequent year.

Once you meet a full condition of release (such as turning age 65 or notifying the fund trustee that you have retired), your pension will become fully accessible allowing you to make lump sum withdrawals, or pension payments of any amount.

Taxation of your pension income

Your TTR pension may be made up of a taxable and a tax-free component. Generally,employer contributions, amounts you have salary sacrificed, personal contributions for which you have claimed a tax deduction, and any investment returns earned by your fund form part of the taxable component. Other amounts, such as after tax non-concessional contributions and spouse contributions, will make up your tax-free component.

When you commence a TTR pension, the tax components of the pension will reflect the tax components of your super account just before you commenced the pension, in the same proportions.

All future pension payments you receive from your pension are split in the same proportions. For example, if your account balance at commencement consisted of $80,000 taxable and $20,000 tax-free, then 80% of all pension payments would also be from the taxable component.

Whilst you are under age 60, pension payments from the taxable component are included in your assessable income, but receive a 15% tax offset. Once you turn age 60, all pension income received (from a taxed fund) is tax free.

Transfer balance cap

Once you satisfy a full condition of release, such as turning age 65 or retiring, your TTR moves into 'retirement phase'. This means that earnings on investments held within the pension are taxed at 0% rather than up to 15%.

The account value is also assessed against your transfer balance cap (TBC). The transfer balance cap limits the amount that can be transferred into 'retirement phase' of superannuation and receive the benefit of 0% earnings tax. The cap is $1.6 million for 2018/19.

Penalties apply if you exceed the cap based on all your superannuation income streams determined to be in retirement phase.

Please refer to the 'Transfer Balance Cap' Understanding Series for further information.

Department of Human Services

If either you or your spouse receives a payment, benefit or concession card from Department of Human Services/Veterans' Affairs your TTR pension may impact eligibility under the income and/or assets test. This will vary depending on the payment, benefit or concession applicable.

TTR pensions are assessed under the deeming rules for the social security income test for income support payments such as Age Pension, Service Pension, Disability Support Pension, and Carers Payment. This assessment also applies for some other payments and allowances. This means the assessable income from your pension account is calculated using an assumed rate of earnings, known as a deeming rate (set by the Government). The actual pension payments you receive may be more or less than the deeming rate.

However, if you commenced your TTR pension before 1 January 2015 and have been continuously receiving an 'income support payment' from the Department of Human Services or Veterans' Affairs (DVA) since 31 December 2014, the assessable income from your TTR pension may continue to be calculated under the 'deductible amount' rules. These rules may be more favourable as only a portion of the pension payment (above the calculated 'deductible amount') is assessed as income. If you commence a new pension, switch to a new pension provider or your Department of Human Services/DVA entitlements reduce to nil for any period, your TTR pension will revert to deeming rules.

Regardless of when your TTR pension commenced, lump sums withdrawn do not count as income for Department of Human Services/DVA purposes. However if your TTR pension income is determined under the 'deductible rules' lump sum withdrawals may impact the pension's deductible amount going forward.

The account balance of your TTR pension is counted as an assessable asset.

Risks and Consequences

- Accessing your superannuation now reduces your available funds at retirement unless you top this up with additional contributions such as through a salary sacrifice arrangement and/or personal deductible contributions.
- As you are under age 65, the minimum pension income is 4% per financial year. The minimum pension payment increases depending on your age.
- Your TTR pension is not guaranteed and may not last the rest of your life, pension payments can only be made while there are funds in your account. There is a risk that your pension income may cease (or reduce) if you draw your income too fast or if investment returns are poor.
- If you have made personal superannuation contributions for which you wish to claim a tax deduction, you must lodge a Notice of Intent form with your superannuation fund (and wait for confirmation that they have received the notice) prior to commencing a TTR pension or rolling your funds to another provider to commence a TTR pension.
- In the financial year that you either start or stop your TTR pension the minimum pension required for that financial year is pro-rated. If the pension is commenced in June you do not need to take any income in that financial year.
- Once you reach age 65 or notify the trustee that you have meet certain other full conditions of release (eg retirement), the pension will move to retirement phase and be assessed against your transfer balance cap. If the value exceeds your transfer balance cap at that time, additional tax and penalties may be payable.
- If you are a Department of Human Services/DVA customer, you are required to notify the Department of Human Services/DVA within 14 days about the commencement of the pension as it may affect your payment or any significant changes to the account-balance.
- Fees may be charged for a TTR pension. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your fund.

Version: 1.06

Estate Planning – Wills

Having a valid will in place gives you peace of mind knowing that your wishes will be followed in relation to your financial and personal matters in the event of your death.

Estate Planning involves managing the transfer of wealth to your chosen beneficiaries. Putting a valid will in place is one aspect of estate planning.

Benefits

- Your estate may be administered faster and with fewer complications because your intentions will be known.
- Your assets are more likely to pass to your intended beneficiaries.
- There is reduced potential for family disputes.
- You have opportunity to manage tax implications and reduce costs for beneficiaries.
- You will have opportunity to nominate a suitable guardian for your young children.

How it works

A will is a legal document that sets out how you want your assets to be distributed when you die. You must have both legal and mental capacity to be able to make a valid will.

Some important items that you need to consider when drafting your will include:

- who should benefit from the estate
- whether special bequests of assets are to be made to specific beneficiaries
- who the executor of your estate should be – this can be more than one person and they should be willing and able to accept the role, and
- what assets can be distributed under the terms of your will – and whether you might need to make other arrangements for certain types of assets that are not automatically distributed in accordance with your will.

The executor has the duty of carrying out your wishes in the will and is granted power to administer the estate.

You may also wish to consider whether to leave assets to your beneficiaries directly, or through a testamentary trust , whether you wish to establish a life interest for a particular person, or whether guardianship provisions need to be made for a certain beneficiary.

- Testamentary Trust – a trust may be particularly useful if you have beneficiaries who are young, have a disability, face the potential for a divorce or other litigation, or have problems with the control of money. Using a trust can allow for certain assets to be controlled and managed by the trustees on behalf of the beneficiaries of the trust. This could provide a number of key benefits, including asset protection and tax planning opportunities.

- Life Interest – a life interest can be used if you want to give someone the right to use an asset during their lifetime but have another beneficiary take ownership of the asset at a later point. A life interest is commonly used to enable a surviving spouse to continue living in a home, with the ownership of the home eventually passing to the children at the end of a specified period, or when that person passes away.

- Guardianship – if you have young or disabled children, your will can include the nomination of your preferred guardian for those children. Your guardianship nomination is a declaration of your intentions only and can be overruled by a court if the nomination is not in the best interest of the child.

Estate and non-estate assets

Before you start planning your estate, it's important to understand the way different assets are treated and the options available to you.

Making sure your assets go to the right people after you pass away is not always as simple as stating your wishes in your will. How your property is distributed may depend on a number of factors, including:

- whether you owned an asset individually or jointly
- the legal structure of ownership, if an asset is owned by more than one person
- the terms of your will, and
- state or territory based legislation.

An asset you own individually (or your ownership interest in a particular asset that you own with someone else) will be categorised as either an 'estate asset' or a 'non-estate asset'. This will play an important part in determining how the asset is dealt with when you pass away.

Assets that are automatically form part of your estate when you pass away and are dealt with through your will are called 'estate' assets. Examples include:

- assets held solely in your own name such as shares and bank accounts, and
- your share of assets that you hold as tenants-in-common with another person

Assets that do not form part of your estate are called 'non-estate' assets. Any provision in your will relating to a non-estate asset will be invalid. Your non-estate assets include:

- assets that you own as joint-tenants with another person, where ownership will automatically pass to the surviving owner
- personally owned life insurance policies where there is a valid beneficiary nominated, and
- money held in superannuation (except in certain situations).

Challenging a Will

Your will may be challenged after your death in certain situations. Examples of these situations include where:

- the will was not your last will, or it is not completed correctly
- you did not have mental capacity at the time you signed the will
- you were forced or pressured into making the will
- a person you had a responsibility to provide for believes you didn't adequately provide for them.

Family provision legislation exists to ensure that certain people are provided for after a person's death. The list of people who can challenge a will on these grounds can vary across the states but may include your spouse (whether married or defacto), children and step-children. It can also extend to other family members or individuals.

Having your will drafted by a solicitor and reviewed as your circumstances change can reduce the chances of your will being challenged.

Risks and Consequences

- Once in place, you should review your will every few years or when your circumstances change.
- If you die without a valid will, you will have died ‘intestate’ and the distribution of your assets in is determined by state/territory legislation.
- The tax and social security implications of leaving assets to certain beneficiaries should be considered.
- Superannuation is generally not automatically an estate asset (unless for example you make a valid binding nomination to your estate or legal personal representative). It is important to make appropriate arrangements in respect of your super when reviewing your overall estate plan. This may include making a beneficiary nomination with your fund, and/or making provisions in your will if appropriate.
- It is important to ensure that your executor and/or family know where to find a copy of your latest will and other important documents.

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Estate Planning – Powers of Attorney

A power of attorney can give you peace of mind knowing that your affairs can continue to be taken care of in the event that you are not in a position to make certain types of decisions yourself. For example, this can include situations where you're overseas, or incapacitated.

Benefits

- Your attorney will be able to deal with your assets as required under certain situations. This can enable payment of your expenses, including medical and ongoing bills.
- Your affairs may be conducted in a manner similar to how you would conduct them by someone you trust.
- The potential for family disputes may be minimised and your affairs can be kept in order.

How it works

A power of attorney is a legal document giving your nominated attorney the right to act on your behalf in certain events. You are only able to sign a power of attorney whilst you have mental capacity.

Powers of attorney are very important documents. If you become incapacitated without a power of attorney, a person from the Guardianship Board may be appointed to make your decisions, and this person may not be aware of how you like your affairs to be managed. It can cause stress for your family or friends if they are unable to access your funds to cover expenses, such as medical and other ongoing bills.

There are a variety of powers of attorney available. The ones that are appropriate for you will depend on your circumstances and what decisions you think are important in the event that you are unable or unavailable to make those decisions yourself. The broad concepts are discussed below, but the types of documents you can choose from may depend on the state in which you live, as rules and available options can vary.

- General power of attorney – allows the attorney to make financial or legal decisions on your behalf whilst you retain mental capacity. These decisions may include signing legal documents, selling property or doing banking. This power is often used for a specified period of time (such as while you are holidaying overseas), but could also be for a longer period. Actions can be limited to certain assets (such as a particular bank account) or broad powers can be granted to enable the attorney to deal with all financial and legal affairs.

- Enduring power of attorney – allows the attorney to make financial or legal decisions on your behalf, even if you become mentally incapacitated. It is important to think ahead and have this power in place in case it is needed.

- Medical power of attorney – allows the attorney to make medical decisions on your behalf (such as agreeing to or refusing surgery) in the event that you become incapable of making those decisions yourself.

- Enduring power of guardianship – allows the enduring guardian to make day-to-day lifestyle decisions on your behalf in the event that you cannot make these decisions yourself. Lifestyle decisions may include deciding where you will live or health care issues.

When choosing your attorney or guardian, you can appoint a trusted friend or family member solely, jointly, or in conjunction with a solicitor or professional trustee company. The person you choose must be comfortable with taking on this responsibility and you should consider any family conflicts. To help relieve this burden, it can be a good idea to explain your wishes with your attorney in advance or ask the attorney to consult other people when making decisions.

Revoking a Power of Attorney

A power of attorney can be revoked at any time by simply tearing up the document. However, it is preferable to put the revocation in writing so it is clear to the attorney that their power has ended. A copy of the revocation letter should also be sent to all relevant organisations (such as banks, etc).

In the event of your death, all powers of attorney automatically cease and the executor of your Will takes over responsibility.

Risks and Consequences

- You should review your power of attorney regularly to ensure it continues to be appropriate for your circumstances.
- It is best to seek legal advice and have the attorney documents drawn up by a solicitor.
- Legislation relating to powers of attorney varies between Australian states and Territories. If you move interstate it is important to review any existing powers of attorney and they may need to be redrafted.
- A power of attorney can only be signed whilst you have legal capacity so planning ahead is important. In some cases this may need to be verified by a doctor or solicitor. You can cancel or change your power of attorney at any time whilst you continue to have legal capacity.

Version: 1.06

Estate Planning – Advance Care Directive

An Advance Care Directive can give you peace of mind knowing that those caring for you will know your wishes for medical treatment and care if you are no longer able to make or express your own wishes. You may also be able to name someone to speak on your behalf.

Benefits

- It provides a clear decision-making framework when trying to establish care decisions.
- Allows you to document your preferences/instructions for your health care, end-of-life, living arrangements and/or personal matters, should your decision making ability be impaired.
- Allows you to appoint decision makers to make these decisions on your behalf, if you are not in a position to make decisions yourself.
- Your affairs may be conducted in a manner similar to how you would conduct them.

How it works

An Advance Care Directive is a legal document detailing your wishes, preferences, and instructions for your living arrangements, personal matters, future health care, and end-of life decisions should your decision-making ability be impaired. The document may also allow you to appoint a decision maker to act on your behalf should you not be in a position to make certain decisions for yourself.

This document does not cover financial or lifestyle decisions so it is important to have an advanced care directive in conjunction with your Will and Enduring Powers of Attorney and Guardianship.

When choosing your substitute decision-maker, you can appoint a trusted friend or family member solely, jointly, or in conjunction with a solicitor or professional trustee company. The person you choose must be comfortable taking on this responsibility. To help relieve this burden, it can be a good idea to explain any wishes you have with your chosen person and your family in advance.

You can revoke or change the directive by making a new Advance Care Directive.

Risks and Consequences

- You should review your Advance Care Directive regularly to ensure it continues to be appropriate for your circumstances.
- Legislation relating to Advance Care Directives/Powers of Attorney varies between Australian States and Territories. You should seek legal advice to have the power correctly drafted for the relevant state legislation.
- An Advance Care Directive can only be signed whilst you are competent to do so. You can enforce a new Advance Care Directive at any time (thereby revoking any existing Advance Care Directive) whilst you are competent to do so.
- This Advance Care Directive is not a Will. It also cannot be used to make financial or legal decisions. It is recommended you think about appointing an Enduring Power of Attorney and an Enduring Power of Guardian to make decisions about your future finances and legal matters.

Version: 1.06

Estate Planning – Superannuation death benefits and nominations

Nominating a beneficiary to receive your superannuation benefits upon your death gives you peace of mind knowing that the funds will be paid according to your wishes.

Benefits

- Upon your death, your superannuation can be paid faster and with fewer complications than if it has to go through your estate or wait for trustees of the fund to make a decision.
- Your superannuation is more likely to pass to your intended beneficiary.
- Family conflicts may be avoided.

How it works

Superannuation does not automatically form part of your estate when you pass away. This means that unless you take specific steps, the trustee of a superannuation fund may have the discretion to decide who should receive the balance of your account upon your death, regardless of what you might indicate in your will.

To provide more estate planning certainty, you may be able to make a beneficiary nomination on your account to bind the trustee to follow your wishes or to give the trustee guidance as to who should receive your superannuation death benefit.

You're only able to nominate someone who meets the definition of 'superannuation dependant' or to your estate. Whether or not the person meets the definition of a superannuation dependant will be determined at the time you pass away. A superannuation dependant includes:

- your spouse (legal or de-facto, including same-sex)
- your children
- someone who was financially dependent on you at the time of your death
- someone who was in an interdependency relationship with you at the time of your death.

Your beneficiary will generally receive the benefit as a lump sum. However certain beneficiaries may be able to choose to receive some or all of your super as a death benefit pension instead. This includes your spouse, a child under 18 or child age 18 – 25 who is financially dependant upon you. If a pension is paid to a child under age 25, it must cease when that child reaches age 25, unless they meet the disability requirements. Any remaining benefit will be paid to the child as a tax-free lump sum.

Your benefit will only be distributed in accordance with the provisions of your will if it is paid to your estate- either as a result of the trustee of the fund using their discretion, or in accordance with a valid binding nomination you may have implemented.

Beneficiary nominations

To ensure that your superannuation death benefit is paid to the person or people you wish, there are a variety of beneficiary nomination options which may be used. This can give you more confidence that the right person will receive your benefit.

- **Binding nomination** – this nomination is binding on the trustee of your superannuation fund provided it is valid at the date of your death. To be valid, the nomination must be in writing, signed and dated by you and appropriately witnessed. The person nominated must also meet the definition of a superannuation dependant at the time you pass away.

  Some binding nominations only last for three years before they lapse, while others are valid indefinitely. However it is a good idea to review your nomination regularly (preferably annually) to ensure the nomination continues to be appropriate. If your superannuation is in a self-managed superannuation fund, the requirements to be a valid nomination will depend on the trust deed requirements. It is important that any nomination is in line with the rules of the fund, otherwise it may be invalid.

  Non-binding nomination – a non-binding nomination means that the trustee of your superannuation fund will consider your nomination, but will retain full discretion to override it. The trustee will attempt to identify all potential beneficiaries and make their own decision about who is the most appropriate beneficiary. The trustee might pay the benefit directly to one or more individuals, or to your estate. This can take time to decide and to follow the correct processes.

  If the superannuation death benefit is paid to your estate and your will does not make adequate provision for it or you pass away without a valid will, your estate including super proceeds may be distributed in line with state based intestacy laws.

- **Reversionary nomination** – this type of nomination is only available for some types of superannuation income streams. It is important to get advice to understand whether a reversionary nomination is appropriate based on the type of income stream you have, and who you wish to nominate as a beneficiary.

  In the event of your death, the trustee will be bound to continue paying the pension to your valid nominated beneficiary. Your beneficiary may have flexibility to stop the pension and convert it into a death benefit lump sum if desired, depending on the income stream type. Generally speaking, you can only make a reversionary nomination when you start a pension and you may need to stop and restart the pension to make changes. Before you stop and start your pension it is important to understand whether this may have any implications, for example, your eligibility and entitlement to any social security benefits, or aged care fees.

Taxation of death benefits

The tax payable on a superannuation death benefit depends on a number of factors, including:

- whether or not the beneficiary meets the definition of ‘tax-dependant’
- whether the benefit is paid as a lump sum or pension
- the tax components of the interest
- whether the fund includes proceeds from certain insurance policies
- the age of the deceased at the time of their death and the age of the beneficiary, and
- whether the benefit is paid from an untaxed (unfunded) superannuation scheme or from a taxed (funded) scheme.

The definition of a tax-dependant is slightly different to superannuation dependant, with a tax-dependant being:

- a spouse of the deceased (current or former spouse, including legal, de-facto or same-sex)
- a child of the deceased who is under age 18
- someone who was financially dependent on you at the time of your death
- someone who was in an interdependency relationship with you at the time of your death.

A non-tax dependant will pay a higher rate of tax and can only receive the death benefit as a lump sum.

If your life insurance is held inside your superannuation account, the proceeds will be paid into your account and also form part of your superannuation death benefit. This can result in an untaxed element being created. The untaxed element attracts a higher rate of tax on lump sums paid to a non-tax dependant. If you choose to rollover the death benefit and life insurance proceeds (paid due to death) to another fund, tax may also be payable upon rollover.

Tax rates on super death benefits paid as a lump sum		
Tax component	**Paid to a tax dependant**	**Paid to a non-tax dependant**
Tax-free	Nil	Nil
Taxable (element taxed)	Nil	Up to 15%*
Taxable (element untaxed)	Nil	Up to 30%*

* Medicare and other levies may also apply. Amount will be included in the beneficiary's assessable income with a tax offset applied so that tax on the benefit does not exceed the rate indicated. However because the benefit is included in the beneficiary's assessable income, it may impact entitlement to certain benefits and concessions which are determined based on income.

Tax rates on super death benefits paid as a pension to a tax-dependant**		
Tax component	**Either deceased or beneficiary are age 60 or over**	**Both deceased and beneficiary are under age 60**
Tax-free	Nil	Nil
Taxable (element taxed)	Nil	Marginal rate less 15% offset*^
Taxable (element untaxed)	Marginal rate* less 10% offset	Marginal rate*^

**Different rates of tax may apply if a death benefit is received from a defined benefit fund.
These rules are complex and it is important to seek advice.
* Medicare and other levies may also apply.
^ Once the beneficiary turns age 60, the concessional treatment in Column 2 may apply on pension payments received from that point.

Note: Tax may be payable on super death benefits that are rolled to a new fund, where the amount includes proceeds from a life insurance policy paid due to death. This may occur in circumstances where the deceased was under age 65 at death. Tax will be payable on any untaxed element at up to 15%. This tax is deducted before the death benefit pension commences.

Cap on transfers to a super pension

A cap exists to limit the total amount that can be transferred to certain superannuation income streams (known as 'retirement phase income streams') in your lifetime. This cap is known as the 'transfer balance cap' (TBC). In 2018/19, the TBC is $1.6m and may be indexed in the future. Penalties apply where amounts in excess of your TBC are transferred to pension phase, and you will generally need to take steps to reduce the excess.

As well as certain super pensions you may receive when you reach 65, retire, or meet certain other conditions, death benefit pensions you receive are also within the definition of 'retirement phase income streams' and are therefore counted towards your TBC.

When you transfer an amount to a retirement phase pension, you receive a ‘credit’ to your transfer balance account. The type of death benefit nomination that is in place will impact the timing and amount of the credit to your transfer balance account.

It is important to understand the impact to your transfer balance account if you are entitled to receive a death benefit pension, including whether or not receiving some or all of the death benefit as a pension will cause you to exceed the TBC.

If you’re unable to receive the entire death benefit as a pension due to the TBC, you will need to consider alternative options. This could include:

- receiving the death benefit as a lump sum
- receiving some of the death benefit as a pension and some as a lump sum
- if you are in receipt of a super pension from your own member balance, you could consider commuting some of this pension back to your accumulation account to enable you to commence a larger death benefit pension, or
- commuting some or all of your own member pension as a lump sum out of superannuation, and investing the proceeds outside superannuation to enable you to commence a death benefit pension.

You cannot retain any of a superannuation death benefit in super accumulation, and you won’t be able to consolidate a death benefit pension with your own member pension.

The right option for you will depend on your individual circumstances, so it is important to make sure you receive advice that considers your personal set of circumstances to decide what is right for you.

The above rules apply to beneficiaries eligible to receive a death benefit as an income stream, except for child. Child beneficiaries receiving a death benefit pension also have an assessment against a modified TBC. These rules are complex and you should seek specific advice.

Different rules will apply where death benefits are received from a defined benefit fund, and where death benefits are paid as a pension to a child of the deceased.

Pensions paid from a defined benefit interest are generally not commutable (which means you may be unable to exchange some or all of the pension for a lump sum to reduce your transfer balance account). As a result, additional tax may be payable on pension payments received from a defined benefit fund to provide similar outcomes. These rules are complex and you should seek advice to understand the implications specific to you.

Risks and Consequences

- Not all superannuation funds offer the opportunity to make a binding death benefit nomination. You should check with your superannuation fund.
- If trustee discretion applies and disputes arise in relation to who is to be a beneficiary it can take a long period of time to resolve the dispute as The Australian Financial Complaints Authority or ‘AFCA’ may need to mediate or make a decision. Self-managed superannuation funds would need to resolve any disputes through the Courts.
- Superannuation does not automatically form part of your estate. This means that even if you outline in your will who you would like to receive your super death benefit, the trustee of the fund

is not obligated to take the terms of your will into account when deciding who should receive your benefit.

- The validity of a binding nomination is only verified after the member's death. It is important to seek advice to ensure it is correctly completed and continues to be valid.
- It is important to seek advice before rolling a death benefit to which you've become entitled, to another fund to commence a death benefit pension, if eligible. This is because if the benefit includes life insurance proceeds, tax may be withheld upon rollover.
- In certain circumstances, a binding nomination can be overruled by a court order. This risk can be minimised if your binding nomination is considered in conjunction with your will.
- If you have a self-managed superannuation fund, the rules and processes that apply when making a death benefit nomination and at the time a benefit becomes payable, can be very complex. It is important to seek the right legal and financial advice to make sure you make the appropriate arrangements.

Version: 1.06

Estate Planning – Special disability trusts

A Special Disability Trust (SDT) can help plan for the future care and accommodation needs of a family member with a severe disability. The individual with the severe disability will be the principal beneficiary of the SDT. This means that the assets and income of the trust are held for the benefit of that individual.

Benefits

- Tax and Department of Human Services/Department of Veterans' Affairs (DVA) concessions are provided to SDTs. To receive this treatment, the SDT and the disabled person must meet the eligibility criteria. Concessions may also be extended to those individuals gifting money or assets into the SDT.
- Income and distributions from the SDT to the principal beneficiary are not income for social security purposes. Therefore, these amounts will not be taken into consideration when determining that person's Government income support payment.

How it works

Department of Human Services

SDTs qualify for certain concessions under the social security income and assets tests as well as the gifting provisions.

Principal beneficiary

A SDT must have only one principal beneficiary. This person must be considered severely disabled and meet the definition under the legislation.

The trust will cease to be a SDT when the principal beneficiary dies.

Means testing of Special Disability Trust

SDT trusts are subject to favourable social security assessment for the principal beneficiary.

Assets held in an SDT up to the concessional asset value limit are exempt from the assets test for the principal beneficiary. This means assets up to that limit will not be taken into account when determining that person's Government income support payment. Only assets above this limit are included to determine any entitlement as there is no limit on the amount that can be held in a SDT.

An additional concession applies if the principal beneficiary's home is held in the trust. The home will also be an exempt asset in addition to the concessional limit permitted in relation to other assets.

Gifting money to a special disability trust

Anyone, including an organisation, can contribute to an SDT. However the following exceptions apply:

- Settlor – this is the person who establishes the trust and is generally an independent person and not a key person wishing to gift to the trust.
- The principal beneficiary/partner except in limited circumstances (see below)
- Gift of compensation money received by or on behalf of the principal beneficiary.

The principal beneficiary and/or their partner can gift money to their own SDT only if the amount is a bequest or superannuation death benefit. The amount must be gifted to the SDT within three years of receipt of the bequest or superannuation death benefit. However compensation amounts paid to or on behalf of the principal beneficiary cannot be directed into a SDT.

From a social security perspective, a concession is provided for gifts made to SDTs within the limit of $500,000. Gifts up to this limit are not assessed as a gift or a deprived asset of the person providing the cash or other assets, under the general gifting rules.

The gifting concession applies only to immediate family member who receive:

- A social security pension and have reached age pension age,
- A service pension and have reached the veterans' pension age, or
- A DVA income support supplement and have reached qualifying age for the payment.

Where a family member makes more than one gift or more than one family member makes gifts, the gifting threshold is utilised in order of the gift being made.

Trust requirements

Due to the concessional treatment applied to SDTs, there are a range of requirements that must be met for the concessions to apply. The main purpose of the trust must be to provide for a principal beneficiary with a severe disability. Other requirements include:

- Investment rules including need for an investment strategy
- Trust deed
- Property requirements
- Reporting and audit.

Taxation

Income of the SDT is taxed at the principal beneficiary's marginal tax rate regardless of whether the trust has distributed this amount out to the beneficiary. If the trust fails to meet the definition at the end of a financial year, ordinary trust taxation will apply.

The capital gains tax main residence exemption may also be applied where a dwelling is disposed of by the trust which has been used by the principal beneficiary as their main residence.

For family members gifting to a SDT, a capital gain or loss made on the gifting of an asset to a SDT is disregarded. This gift must be made for no consideration.

Risks and Consequences

- Given the specific requirements for an SDT, it is important to get legal and tax advice to ensure the requirements are met at commencement and on an ongoing basis.
- It is important to ensure that the SDT complies with all requirements initially and on an ongoing basis to retain the concessional treatment.
- Gifts made to SDTs must be unconditional.

Version: 1.06

Estate Planning – Testamentary trusts

A testamentary trust is established within a will to allow an inheritance to be paid to a group of people rather than to one person directly typically over a period of many years. One or more people are nominated as trustee in the will to manage the trust and the group of people who can be potential beneficiaries is also nominated.

This separation of control and benefits may provide taxation advantages as well as protect assets from legal action involving a beneficiary and/or from being misused by a beneficiary.

Benefits

- Assets may be protected for beneficiaries who are unable to manage their own finances, such as a disabled child or a spendthrift beneficiary.
- Assets may be protected for beneficiaries who are at risk of bankruptcy or divorce.
- Assets may be protected for at-risk professionals or those carrying on a business.
- Income and capital may be distributed to beneficiaries in a tax effective manner, particularly if you have young children in your family.

How it works

A testamentary trust is a trust created by your will, so it does not come into effect until after your death. The will can direct that all or some of your estate assets are transferred into the trust.

The trust is usually structured as a discretionary trust which gives the trustee full discretion about distributions to beneficiaries.

You can choose anyone to be trustee, including the executors of your will, your spouse or partner, or your children (if they are 18 years of age or older). The trustee has effective control of the trust, so you should nominate a person who you know and trust will act in the best interests of the beneficiaries. You can nominate more than one person and specify whether they can act alone or if decisions must be made together.

Some things to consider when establishing a testamentary trust include:
- whether to establish one or more testamentary trusts (each trust can have a different trustee)
- who should be trustee
- the method of appointing replacement trustees
- whether to limit beneficiaries to your descendants only or also include their spouses
- whether some beneficiaries should be restricted to benefitting from income and others to capital.

For full flexibility you may wish to give the executor of your will the discretion not to set up the trust based on circumstances at the time.

Because the assets of the trust are not owned personally by the beneficiaries it may provide some asset protection to the beneficiaries from actions by creditors, ex-spouses or litigation.

Tax advantages

The primary purpose of a testamentary trust is to manage estate assets to produce income for beneficiaries however a testamentary trust may also provide tax benefits.

The trustee generally has discretion to control the distribution of capital and income to beneficiaries. The decision can take into account a beneficiary's tax rate at the time to make distributions in a tax-effective manner.

Where income is distributed from a testamentary trust to children under age 18, it will be taxed at adult tax rates instead of the penalty tax rates that often apply to a child's income.

Department of Human Services implications

It is important to consider the impact of a testamentary trust on any person involved with the trust if that person is also receiving (or expects to receive) an income support payment from the Department of Human Services or Veterans' Affairs (DVA).

If you nominate a Department of Human Services/DVA income support recipient as appointer, trustee or beneficiary of your testamentary trust, some or all of the trust assets and income received may be assessed against that person. This may impact their entitlements. As such you may wish to consider excluding these people from any involvement with the trust.

Risks and Consequences

- You should consider the cost of administering a testamentary trust, particularly if a professional is appointed trustee as there will be a cost for this service.
- The capital gains tax exemption that applies to a family home does not apply if a home is owned by a trust.
- You should review your will on a regular basis to ensure it continues to reflect your wishes and changes to your situation are incorporated.

Version: 1.06

Estate Planning – Family trusts

The term family trust refers to a discretionary trust set up to hold a family's assets or to conduct a family business. The ability to effectively manage tax between family members, protect assets from creditors, and help with succession planning could make them a useful tool in wealth creation. For tax purposes though, a trust is not considered a “family” trust until a “Family Trust Election” is made which is a confirmation to the Australian Taxation Office that every beneficiary in the trust is related to a particular individual. While a family trust is generally just a discretionary trust, there are certain tax concessions available when the trust is a ‘family trust’.

Benefits

- Asset protection. Assets held in a family trust may be protected from creditors in the event of bankruptcy. In some cases, assets in a trust are also protected in the event of relationship breakdown. Therefore, they can be useful in protecting assets from business or personal disputes. A family trust can also facilitate the transfer of assets from generation to generation tax efficiently, and help ensure that particular assets are maintained for the benefit of the family and don’t leave the family bloodline. A family trust can also be helpful in managing and protecting investments for children (particularly those 18 or over) without having the investment legally owned by the child for them to access at their will.

- Tax planning. Subject to the trust deed and the power this document provides the trustee, it may be possible for trust income to be distributed tax effectively to beneficiaries on lower marginal tax rates. It is generally possible for the trustee to review this on a year-on-year basis to maintain tax effectiveness as beneficiary’s circumstances change.

- Flexibility and estate planning. Most family trust deeds are flexible in their operation and can provide for good estate management, allowing for assets to benefit generations without the need for ownership to change from one individual to the next.

How it works

To be eligible to make a ‘family trust election’ there are specific requirements that must be met. Given the taxation and legal issues that need to be considered and addressed, it’s important to seek tax and legal advice from suitably qualified professionals.

An Australian family trust:

- is generally established by a family member for the benefit of members of the 'family group'
- can be subject of a family trust election which provides it with certain tax advantages, provided that the trust passes the family control test and makes distributions of trust income only to beneficiaries of the trust who are within the 'family group'
- can assist in protecting the family group's assets from the liabilities of one or more of the family members (for instance, in the event of a family member's bankruptcy or insolvency)
- provides a mechanism to pass family assets to future generations, and
- can provide a means of accessing favourable taxation treatment by ensuring all family members use their income tax "tax-free thresholds".

The terms and conditions under which a family trust is established and maintained are set out in its deed.

The trust is established by the trust's settlor and trustee (or trustees) signing the trust deed, and the settlor giving the trust property (the "settled sum") to the trustee.

The settlor's function is to give the assets to the trustee to maintain for the benefit of the trust's beneficiaries on the terms and conditions set out in the trust deed. The settlor executes the trust deed and then, generally, has no further involvement in the trust.

The trustee is responsible for the trust and its assets. The trustee has broad powers to conduct the trust, and manage its assets.

Many trusts also have a person or persons acting in the role of appointor. The appointor is typically not involved in the day to day running of the trust (unless they also act as trustee), but primarily have the power to appoint and remove trustees. They may have additional powers, such as the power to vary the trust deed, approval of capital distributions and to bring forward the vesting date of the trust which is the date at which the trust ends and the assets of the trust are distributed to the beneficiaries.

The roles of trustee and appointor can be incorporated. Additionally, beneficiaries can be companies as well as persons.

Subject to the terms of the trust deed, the trustee may be free to distribute trust income to any beneficiaries as deemed appropriate, and in proportions that take best advantage of those beneficiaries' personal marginal tax rates. Distributions received by a beneficiary from a trust form part of a beneficiary's assessable income. The beneficiaries then pay the tax on distributions made to them. Undistributed income is taxed in the hands of the trustee at the top marginal tax rate, which may be an incentive to fully distribute the trust's income before the end of each financial year.

Distributions must be made only to people who qualify under the terms of the trust deed to be beneficiaries of the trust and who are within 'the family group'. If a family trust makes a family trust election and then makes a distribution to someone who is not a member of the family group, they will be taxed at the top marginal tax rate, plus Medicare levy. The trustee should also take care in relation to which beneficiaries are chosen to receive distributions, as penalty tax rates can apply to distributions made to minors.

Risks and Consequences

It's important to seek tax and legal advice from suitably qualified professionals before establishing a family trust. This will help to understand whether a family trust is right for you, and some important things to consider.

Some considerations include:

- When trust income is not distributed, tax is payable on the undistributed income at the top marginal rate which may be higher than if the income were distributed to a beneficiary.
- It is always important that distributions are made in accordance with the trust deed and that proper records are kept regarding distributions.
- It is important to consider any social security implications as a result of having involvement in a trust in any capacity, including as trustee or a beneficiary. In some cases, Centrelink may attribute assets or income of the trust to an individual when determining the benefit to which they are entitled under means-testing arrangements.

- A family trust will need to satisfy certain requirements, such as completing annual tax returns. The trustees may need to seek professional advice (eg legal, accounting or financial planning) and the costs paid by the trust should be compared to the benefits of maintaining the trust. Additional requirements apply if the trustee is a corporate trustee.
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Version: 1.06

Self Managed Super – Self Managed Superannuation Funds

For individuals seeking to own direct investments within superannuation or gain greater control of their superannuation portfolio, Self Managed Superannuation Funds (SMSFs) can be an attractive alternative.

Benefits

- **Direct investment choice** - You can invest directly in your own chosen combination of investments, for example, shares, property, fixed interest investments, managed funds and cash. You may also include property such as business real property (commercial property).
- **Access to wholesale managed funds** - You may gain the benefit of access to wholesale managed funds where the investment charges are lower than retail managed funds.
- **Consolidation** - You have the ability to have up to four members in a SMSF. You are therefore able to combine your superannuation benefits into one strategy which may reduce ongoing costs and increase the potential for compounding capital growth.
- **Tax planning** - You have the ability to reduce taxation liabilities within the fund by selecting a tax effective mix of investments, including franked dividends. Investment earnings are subject to tax at a maximum rate of 15%.
- **Estate planning** - SMSFs provide estate planning opportunities where there is more than one member in the fund.
- **Non-lapsing binding nomination** - A member of a SMSF is able to a have a non-lapsing binding nomination which allows them to specify how their benefits are to be distributed on their death.

How it works

SMSFs can facilitate all major superannuation functions including:

- accepting new superannuation contributions
- consolidating superannuation funds received from a change in employment, and
- paying retirement income.

Members

A SMSF must have up to four members. No member is allowed to be an 'employee' of another member unless related.

Cost considerations

The costs associated with establishing a SMSF may include:

- the preparation of a trust deed including updates following legislative changes
- in the event of a corporate trustee, the costs of establishing and using this framework
- the costs of using and establishing the administrative framework and,
- the accounting, audit and ongoing administration of the fund.

Establishing the trustee/s

The trustee is responsible for compliance with a range of investment related requirements including:

- the investment strategy covenant
- various restrictions on investments and benefits including those related to:
- lending to members or their relatives
- acquiring assets from members or their relatives
- in-house assets
- arms-length transactions
- borrowing by the fund
- member reporting obligations
- contribution standards, and
- benefit payments standards.

While trustees may outsource certain functions to external service providers, such as a fund administrator or an accountant, the ultimate responsibility and accountability for the fund always lies with the trustees.

The trustee of a SMSF can be a corporate trustee (ie a private company) or individuals who are members of the fund.

Where the trustees are individuals, the trustee arrangements must be (subject to limited exceptions):

- all members must be trustees, and
- each individual trustee must be a member.

This arrangement promotes true self management of the fund by ensuring all the members have the opportunity to be involved in making decisions that directly affect their superannuation.

A SMSF may have a corporate trustee providing:

- each director of the company is a member of the fund, and
- each member of the fund is a director of the company.

Single member funds

Where a SMSF has only one member, that person may elect to have a corporate trustee. In this case, the member must:

- be the sole director of the trustee company or;
- there can only be two directors of the trustee company.

However the single member:

- must not be an employee of the other director of the trustee company, or
- must be related to the other director of the trustee company.

Alternatively if the single member fund does not wish to have a corporate trustee, the fund must have two individuals as trustees. One of the individual trustees must be the member along with:

- any other person provided the member is not an employee of that person selected to be the other individual trustee, or
- any other person who is a relative of the member.

Establishing a trust deed

A trust deed is commonly referred to as 'the governing rules of the fund'. A trust deed is a legal document that establishes the existence of the fund and rules regarding its operation when it is properly executed.

Trust deeds are available from:

- a solicitor
- an accountant, or
- a specialised SMSF service provider

The major clauses of a trust deed will normally address:

- the establishment of the fund
- the structure and purpose of the fund
- details of who can be a trustee
- how to appoint and remove trustees
- the decision making powers of the trustee
- who can be a fund member
- who can make contributions
- when to pay benefits to members
- ability for the fund to take insurance on the lives of members
- members' benefit entitlements
- what investments the fund can make
- fund records, audit requirements, disclosure and reporting requirements, and
- the appointment of actuary, auditor and managers.

When are SMSFs appropriate?

A SMSF is most appropriate for investors who:

- prefer to have direct control over their retirement funds
- wish to be involved in investment decisions, and
- wish to gain from the flexibility and estate planning benefits associated with SMSFs.

SMSF members must be prepared for the responsibilities associated with being a trustee of a regulated superannuation fund. Members who are prepared to pay for outsourcing much of the administration and investment management of the fund will not need to commit as much of their own time to the fund but will need to be prepared to pay the associated fees for these services.

What level of support is appropriate?
While all SMSFs feature direct investment discretion you can choose the extent of administration support, investment reporting and compliance. Broadly speaking you may choose from:

- a professional administration service for all services required in conjunction with the use of a financial adviser for investment decisions and other key decisions such as commencing a pension, contributions to and withdrawals from the fund, and

- an accounting firm for compliance and tax returns in conjunction with the use of a financial adviser for investment decisions and other key decisions such as commencing a pension, contribution to and withdrawals from the fund and then completing the trustee responsibilities yourself.

From your perspective, the major difference between these options is who is responsible for the prudent management of the fund.

The Superannuation Industry (Supervision) (SIS) legislation codifies some of the most important fiduciary duties of trustees in formal covenants. The codified duties exist alongside trustee duties under common law. For trustees, SIS means their basic duties are clearly spelt out. For members, SIS establishes statutory rights to civil action for loss or damage due to breach of covenants.

Risks and Consequences

Cost barriers

- A typical SMSF is expected to have ongoing costs in a range of $2,000 to $6,000 pa. The cost varies depending on the complexity of investments and level of outsourcing.
- Upfront costs in establishing the fund are estimated to be between $1,000 and $5,000.
- Additional costs may also be incurred upon winding up a SMSF.

Legal and compliance obligations

- Although as a member/ trustee, many responsibilities can be outsourced, the ultimate responsibility remains with the trustee. Non-compliance can result in fines and /or imprisonment.

Expertise and performance

- A high level of flexibility in investment choice requires sound knowledge and experience on behalf of the members/ trustees.

Time consuming

It is reasonable to expect a SMSF will take up a considerable more amount of time for the member than alternative superannuation fund offers.

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Self Managed Super – The SMSF investment strategy

Self-managed superannuation fund (SMSF) trustees are required to prepare and implement an investment strategy. An investment strategy sets out what your fund can investment in. All investment decisions must be made in accordance with the investment strategy.

Some of the key considerations for a fund's investment strategy include:

- The investment objectives for the fund
- Diversification and the benefits of investing across a number of asset classes (such as fixed interest, property and shares)
- The fund's liquidity, including its ability to pay member benefits and other fund expenses
- Whether to hold insurance cover for members
- The circumstances of each member, including their age, income needs and retirement goals.

The investment strategy should be in writing as this provides trustees with clear direction and assists the auditor when preparing the annual report. The investment strategy must be reviewed at least annually and whenever there is a change to the fund, such as if a new member joins or if an existing member commences a pension.

Following is a summary of some of the important features of an investment strategy.

Objective

The investment strategy should set out the fund's investment objectives and the methods that will be used to achieve those objectives. The objective should include a benchmark. For example, to obtain an average yield from all investments of 2% above inflation.

In setting the objective, trustees should consider the needs of each member, such as their time to retirement, risk profile and growth targets. Consideration will also include whether the member is in accumulation or pension phase.

If the risk levels of members are different, trustees can consider segregating member accounts and having different investment strategies for the members.

Risk and return

Risk includes the possibility of loss on an investment. There is a strong correlation between risk and return. Trustees need to determine an acceptable level of risk and volatility of returns according to the fund's circumstances. Risks may include market volatility, liquidity risk, credit risk, operational risk and legislative risk. The investment strategy must include procedures to identify, monitor and manage these risks.

Diversification

A simple risk management strategy is diversification which helps to disperse and manage risk, and reduces the volatility of returns on investments. Diversification can be achieved through:

- investing across a range of asset classes
- investing in a number of assets within a single asset class
- investing in Australia and overseas

- investing in several funds with different management styles.

In some situations an SMSF may have very little diversification, for example if the majority of funds were invested in a single property. In this case, the investment strategy should identify the lack of diversification and explain how the trustees will manage this risk.

Liquidity and cash flow

The fund must have sufficient liquidity to ensure that liabilities can be paid as they arise. Liabilities include tax payments, pension payments, administration expenses and any other fund expenses.

One strategy to assist a fund's liquidity is to hold a cash reserve or investments that can be sold quickly.

The investment strategy should specify whether borrowing is allowed and restrictions on any investments that can be held.

Insurance

Trustees should consider the death and disability insurance needs of each member, as well as what level of cover might be appropriate. The types of insurance that should be considered include life, TPD, trauma and income protection. The outcomes of any consideration should be documented in minutes as well as the reasons for the decision, even if this decision is to not hold any insurance for members.

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Self Managed Super – Key SMSF investment rules

Superannuation law places a number of investment restrictions on superannuation funds which aim to protect members by ensuring fund assets are not exposed to undue risks, such as the failure of a related business.

Failure to comply with the investment rules can result in significant penalties for both the trustees and the fund. Following is a brief summary of some of the investment rules applying to self-managed superannuation funds (SMSFs).

Sole purpose test

The sole purpose test requires your SMSF to be maintained for the sole purpose of providing retirement benefits to members, or to dependants if a member dies before retirement.

If an investment decision is made that provides a member with a financial benefit prior to meeting a condition of release, this may be a breach and the fund could be classified as non-complying. This would result in all earnings (plus the taxable component of the fund) being taxed at the top marginal tax rate plus levies.

Investment strategy

As trustee of your fund, you are required to prepare and implement an investment strategy. An investment strategy helps the fund focus on its goal of providing retirement benefits and reduces the risks associated with unplanned investment decisions.

Some of the key considerations for a fund's investment strategy include:

- The investment objectives for the fund
- Diversification and the benefits of investing across a number of asset classes (such as fixed interest, property and shares)
- The fund's liquidity, including its ability to pay member benefits and other fund expenses
- Whether to hold insurance cover for members
- The circumstances of each member, including their age, income needs and retirement goals.

The investment strategy should set out the fund's investment objectives and the methods that will be used to achieve those objectives. All investment decisions for the fund must be made in accordance with the investment strategy.

The investment strategy must be reviewed at least annually and whenever there is a change to the fund, such as if a new member joins or if an existing member commences a pension.

Ownership of assets

Assets belonging to the SMSF must be kept separate to your personal assets. Having a separate bank account for your SMSF will help your fund meet this requirement. All fund expenses can then be paid from that bank account only.

The Australian Tax Office (ATO) prefers assets to be owned in the name of the trustee. If the fund has individual trustees, assets should be owned by all trustees in that capacity. If the fund has a corporate trustee, assets should be owned in the name of the company as trustee for the fund.

Value all assets at market value

All fund assets should be valued at market value. The market value should be used when preparing your fund's accounts, statements and the SMSF annual return.

Arm's length transactions

All SMSF investments must be made and maintained on a strict commercial basis. This means that the purchase and sale price of assets and any income received from those assets should always reflect the true market value for the asset.

Loans and financial assistance

An SMSF cannot lend money or provide financial assistance to a member or their relative. Financial assistance is defined to include non-arm's length dealings with a related party, loans, provision of a guarantee and forgiveness of a debt.

Related party acquisitions

An SMSF cannot acquire assets from a related party of the fund, except in limited circumstances. These limited circumstances include the acquisition of:

- listed securities
- business real property (generally relates to land and buildings used wholly and exclusively in any business)
- in-house assets providing the total of in-house assets is not more than 5% of total fund assets
- units in widely-held unit trusts.

In-house assets

The value of in-house assets cannot exceed 5% of the total value of the SMSF. These assets are defined to include:

- a loan to, or an investment in a related party of the fund
- an investment in a related trust of the fund
- an asset that is leased to a related party (unless it is business real property).

Borrowings

An SMSF is only able to borrow money in very limited circumstances, including:

- For a maximum of 90 days to meet benefit payments due to members or to meet an outstanding surcharge liability. The borrowings in this circumstance cannot exceed 10% of the fund's total assets.
- For a maximum of 7 days to cover the settlement of security transactions if, at the time the transaction was entered into, it was likely that the borrowing would not be needed. The borrowing in this circumstance cannot exceed 10% of the fund's total assets.
- Limited recourse borrowing arrangements where certain conditions are met.

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Self Managed Super – Costs and risks of borrowing by self managed superannuation funds (SMSF)

A SMSF may borrow to acquire assets as part of the fund's investment strategy.

The risks associated with borrowing to invest within a superannuation fund may mean it is unsuitable for some SMSFs and its members. It is essential to carefully consider these risks and to seek professional advice before proceeding with this strategy.

Although gearing can deliver benefits, the risks associated with gearing may mean it is unsuitable for you. It is essential to carefully consider these risks before proceeding with a gearing strategy.

The specific risks associated with borrowing to invest within superannuation include:

- **Reduction in capital value**. Although there are potential wealth creation benefits to be gained from borrowing, these benefits are achieved at the expense of higher risk.

It is important to note that although borrowing funds has the potential to increase capital gains in a rising market, it can also compound a capital loss in a falling market. The following table provides an example.

Starting Values	Geared	Non-Geared
Investor Equity	$40,000	$40,000
Amount borrowed	$60,000	$0
Total Investment	$100,000	$40,000
Market Rises 10%		
Value of Investmenty	$110,000	$44,000
Loan outstanding	-$60,000	$0
Investor's Equity	$50,000	$44,000
***GAIN* in Investor's Equity**	**25%**	**10%**
Market Falls 10%		
Value of Investment	$90,000	$36,000
Loan outstanding	-$60,000	$0
Investor's Equity	$30,000	$36,000
***LOSS* in Investor's Equity**	**-25%**	**-10%**

- **Interest mismatch**. The success of the strategy hinges on the earnings (income and capital growth) of the proposed investment being greater than the borrowing costs. There is a risk that investment earnings are lower than borrowing costs. You should consider this carefully before borrowing within superannuation. The taxation benefits of this strategy should not be considered in isolation.
- **Deductibility of borrowing costs**. There will be assessable income and interest tax deductions generated within the SMSF. This will not provide any personal assessable income, or personal tax deductions. Within accumulation phase, assessable income less allowable deductions is taxed at a maximum rate of 15%. However, income derived in retirement phase is taxed at 0%.
- **Loss of immediate access to your funds**. If further funds are contributed to superannuation to cover the interest costs and instalment payments, these funds will generally be preserved until you meet a condition of release.

- **Capital gains tax (CGT)**. Within accumulation phase, capital gains are taxed within the fund at a maximum rate of 15%. When sold, if the asset has been owned for at least 12 months, capital gains are taxed at a rate of 10% (one third discount applies). If the asset is sold at a loss the capital loss may only be offset against assessable capital gains. There are no CGT consequences if the asset is sold in pension phase.
- **Liquidity risk**. The nature of some assets (e.g. property) is illiquid, meaning that it takes a longer time sell the investment in order to repay the loan in the case of an unforseen event.
- **Market timing risk**. The asset may need to be sold at a time when the sale price is at a low-point, for example if the SMSF cannot meet the loan repayments due to cash flow problems.
- **Investment restrictions**. Superannuation funds have restrictions on acquiring certain assets, such as in-house assets and the acquisition of certain assets from related parties.
- **Existing SMSF assets**. Existing SMSF assets cannot be placed into a limited recourse borrowing arrangement. The giving of a charge over an existing asset of the SMSF (as would generally occur under such arrangements), would result in a contravention of the operating standards that apply to the trustees of superannuation funds.
- **Fluctuations in interest rates**. If interest rates on borrowed funds increase, then you will incur additional costs that will need to be covered. This may affect the attainment of some of your goals and objectives.
- **Arm's-length**. If the lender is a superannuation fund member or a related party it is essential that the borrowing, as well as any approved acquisition of an asset from a related party, is conducted at arm's-length. The Australian Taxation Office as issued guidance on the features of loans from a related party to an SMSF. That is, market rates of interest, terms and conditions including the value applied to the asset being transferred, are commercial. Penalties apply for non-compliance.
- **Defaulting on the loan**. If the superannuation fund defaults on the loan (i.e. does not pay the loan or interest repayments when they are due), the lender may impose a penalty payment or ask for the loan to be repaid in full immediately. You should ensure you read your loan documentation thoroughly and seek legal advice if you have any queries or do not understand the documents. Under the legislation, it is a requirement for the loan to be 'limited recourse' whereby the lender is only able to recover monies where there is a default on the borrowing by repossessing or disposing of the asset acquired, but cannot recover such monies through recourse to the SMSF's other assets.
- **Loan costs**. An application fee may be payable when you apply for the loan, the details of which can be found in the Loan Application. Other fees may include a monthly service fee and, if applicable a facility fee. In addition, government fees may also apply. These may include stamp duty on the loan and State Government charges which differ from state to state. Some lenders may require adequate personal insurance to be put in place in order to pay off the loan should the death or incapacity of a SMSF member occur.
- **Trust costs**. There will be a cost for setting up the Security (or bare) Trust needed to implement this borrowing strategy, plus ongoing costs for maintaining the trust. You will need to seek professional legal advice about setting up a trust.
- **Ending your loan**. If you decide to end or terminate the loan facility, it may be necessary to sell the underlying investment in order to do so. This means you could be selling the investment at a lower price than what you paid for it, or too early for the borrowing strategy to have provided significant benefits. The recommended minimum investment term for this strategy is 7 years.
- **Legal documentation**. Appropriate legal documentation is crucial as incorrect drafting could potentially lead to a breach of the super or tax legislation, or additional cost such as CGT and stamp duty. Logistical issues such as the pricing of the limited recourse borrowing arrangement, whether actuarial advice is required, potential investment strategy and trust deed amendments must be considered.
-

- Appropriate documentation must show the SMSF trustee(s) has made a genuine borrowing to acquire an asset, particularly when the amount borrowed is from a member or related party. If documentation is inadequate, the amount borrowed may be treated as a superannuation contribution received by the SMSF, which could lead to significant tax consequences if any superannuation contribution limits are exceeded.
- **Divorce**. In the case of divorce, it is important that the members and/or parties involved seek professional legal advice as superannuation assets are taken into consideration in relation to property settlements.
- **Bankruptcy**. Superannuation could potentially provide a degree of asset protection in the case of bankruptcy. Again we recommend that all parties seek professional legal advice.
- **Transaction costs**. The higher the transaction costs the greater the investment must perform to avoid loss. Please refer to the financial projections attached to this advice for a list of estimated and anticipated costs to implement this strategy.
- **Legislative risk**. Legislation applying to SMSFs may change in the future. The Australian Taxation Office and/or courts may also change their interpretation and enforcement of the legislation. This may change the effectiveness of the borrowing strategy.

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Self Managed Super – Limited Recourse Loan

Many people are interested in the ability to purchase property within a Self-Managed Superannuation Fund (SMSF). An SMSF allows you to invest directly in residential or commercial property using the funds accumulated in superannuation. If you want to purchase an investment property within your SMSF, but haven't quite enough, your fund may be able to borrow money for the purchase under a limited recourse borrowing arrangement (LRBA).

Although gearing can deliver benefits, the risks associated with gearing may mean it is unsuitable for you. It is essential to carefully consider these risks before proceeding with a gearing strategy.

In most situations, an LRBA is used to purchase real property. However, it may also be possible to purchase direct shares or even managed funds using an LRBA (subject to certain conditions being met).

An LRBA can only be used to purchase a 'single acquirable asset'. While an SMSF could purchase multiple assets using borrowed funds, multiple loans would need to be implemented so that the lender's recourse is 'limited' to the single property or asset to which it relates.

Benefits

- The SMSF may be able to purchase an asset (i.e. property) when it does not have enough available capital to purchase the asset outright.
- The SMSF may achieve greater asset diversification by using borrowed funds to acquire additional assets.
- SMSFs pay tax at a maximum rate of 15%. The rate of tax on capital gains where a property is held for more than 12 months effectively reduces to 10% on the ultimate disposal of the asset. If the asset is a segregated pension asset, and therefore fully supports a retirement phase pension interest at the time of disposal, capital gains tax may not be payable.
- The use of concessional superannuation contributions (tax deductible) can assist in paying down the SMSF debt. The rate of pay down may be faster in a superannuation environment than in a non-superannuation environment.

How it works

There is a general rule that an SMSF cannot borrow under superannuation law. However, there is a very specific exemption for arrangements that meet all of the requirements of an LRBA. It is important to meet all of these requirements otherwise the fund will be in breach of the superannuation rules and may face penalties.

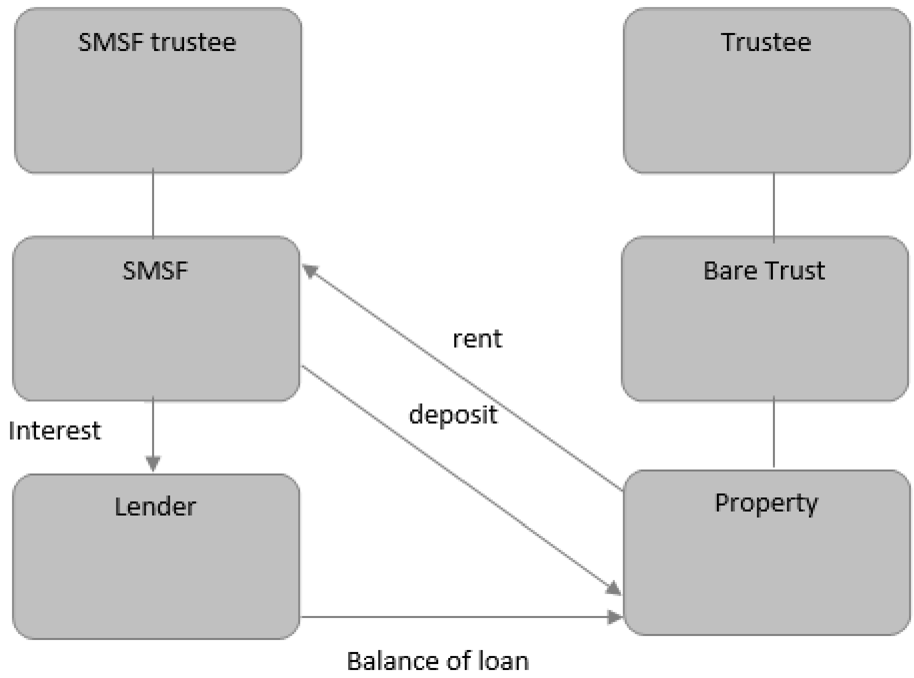
An LRBA is a loan structure where the only SMSF asset that the lender (or any other party) has recourse to is the asset that was purchased using the loan, if the fund is unable to meet its loan obligations.

It involves establishing a security (or bare) trust to legally hold the asset on behalf of the SMSF, i.e. a trust that only holds the asset, for the duration of the loan. There are many names for these types of trusts but they are all bare trusts; they don't perform any function or transactions other than holding the asset. Most lenders will require the trustee of the holding trust to be a corporate trustee. The trustee cannot be the same company as the SMSF corporate trustee, however, it may have the same directors as the SMSF corporate trustee (i.e. the members). This 'bare trust' arrangement broadly recognises that the asset is to be held by the security trust until the debt is repaid, at which point legal ownership can pass to the SMSF.

You also need to remember that not every property can be purchased in an SMSF; it must meet the following criteria:

- must meet the 'sole purpose test' of solely providing retirement benefits to fund members
- must not be acquired from a related party of a member (unless exemption applies under the legislation)
- must not be lived in by a fund member or any fund members' related parties
- must not be rented by a fund member or any fund members' related parties (unless exemption applies under the legislation- which generally relates to a property that meets the definition of 'business real property').

Once you decide that purchasing a property using an LRBA is the right strategy for your SMSF, you need to ensure your SMSF's trust deed allows the fund to borrow. If it doesn't, you will need to update the trust deed to allow the fund to borrow before entering in to the arrangement. The purchase of the property should also be consistent with the SMSF's investment. Again, if the investment strategy needs to be updated, this must be completed before the purchase takes place. Then you need to set up the security trust, select the property (ensuring you buy it in the name of the holding trust) and engage with a lender to obtain finances, and settle on the property by using the loaned funds (and any SMSF money) to complete payment. Your fund can then begin receiving rent payments in the SMSF bank account and making loan repayments to the lender.
It is summarised in the diagram below:



Risks and Consequences

- As with all gearing, the profitability of this strategy depends on the income and capital growth of the proposed investment being greater than the borrowing and ongoing costs. Gearing can magnify gains when the capital value of the investment increases, but will magnify losses if the capital value of the investment falls. The more the SMSF borrows, the greater the risk.
- Potential stamp duty implications arising from the LRBA structure. Fees and charges can add up and will reduce your superannuation balance.
- Interest expenses should be tax deductible to the fund (subject to the property being income producing) however tax legislation can be subject to change.
- Potential illiquidity risk - if the asset acquired is a major portion of the SMSF's total assets and the asset cannot be sold quickly, it may impact on the SMSF's ability to meets its obligations to members. To meet its obligations, the SMSF may need to sell the asset at a time when the sale price is at a low-point or it may be purchased when the sale price is at a high-point.
- If the asset is property, there is a potential risk that tenants are unable to pay rent, or the property is not rented.
- SMSFs need separate bare trusts for each property or investment if they can be sold independently.
- SMSF cannot significantly change the character of the property while it is subject to borrowing. Before undertaking any changes to the property, it is recommended that specific legal advice be obtained.
- SMSF cannot use borrowings to refinance an existing superannuation fund property.
- The possibility that the SMSF investment and cash flow will be adversely impacted by a fall or rise in interest rates.
- The value of the limited recourse borrowing arrangement may have an impact on your total super balance or transfer balance cap. These are complex issues and specific advice should be sought to understand how these rules apply to your situation.

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Self Managed Super – Commencing an SMSF pension

Super legislation imposes strict conditions that regulate when super can be accessed. These are collectively known as 'conditions of release'. When certain conditions are met, it may be possible to receive ongoing and regular payments from your accumulated benefits by commencing an account based pension.

It is important that the pension is set up properly in line with not only legislative requirements, but also in accordance with any particular fund rules stipulated in your fund's trust deed. Following is a summary of the steps that may need to be taken.

Formally commencing a pension

When a member of an SMSF wishes to commence a pension, the member must provide the trustee with a written request confirming that a condition of release has been met and their intention to access benefits as an account-based pension. This request should specify how much to roll over to the pension phase.

Any additional relevant information regarding the proposed pension should also be stated and communicated to the trustee in writing. This may include:

- including the intended commencement date
- nominated pension payments
- frequency of pension payments, and
- where pension payments should be directed.

It is important to consult the trust deed to ensure that any specific fund rules in relation to pensions are reflected in the terms of the pension agreement.

It may be possible to commence a 'transition to retirement pension' (TTR). A TTR may be commenced when a member reaches preservation age, and is non-commutable. This means that lump sums cannot be drawn, and as well as meeting annual legislated minimum payments, there is also an upper limit on the value of annual pension payments.

Generally, when another full condition of release is met at a later time (for example, attaining age 65) it may be possible for the TTR pension to enter what is known as 'retirement phase'. While there is a lifetime limit on the total amount that can be transferred to 'retirement phase' pensions, a benefit of a pension entering retirement phase is that earnings in the pension are tax free.

NOTE: Please refer to the 'Transition to Retirement Pension' and 'Account-based Pension' Understanding Series for further information on these income streams.

Review trust deed

The trustee should check the fund's trust deed to determine if there are any restrictions. In particular, the trustee should check that the member's benefits can be released, that the fund is able to pay an account-based pension, and whether or not the fund can cater for the estate planning needs of the member.

Provide confirmation to member

The trustee should provide the member with a written confirmation that the fund can pay the requested pension.

Determine the member's entitlement

Trustees should verify the value of the member's superannuation account and the underlying tax components. This will require obtaining a current valuation of assets.

Determine whether to segregate assets or not

If the SMSF will have members in both accumulation and pension phases, trustees will need to decide whether pension assets should be segregated or not. If left unsegregated, the trustee will need to obtain an actuarial certificate each year to determine exempt current pension income to obtain tax exemptions.

In some cases, the fund is unable to use the segregated method where any member of the fund has a total super balance (as at the prior 30 June) of $1.6 million or more, where that person is also the recipient of an account based pension (regardless of whether or not the pension is paid from the SMSF or another fund).

Review investment strategy

The trustees should review the fund's investment strategy to determine if changes are necessary to facilitate the payment of the pension or whether the member's risk profile has changed. Strategies for liquidating investments to enable payment of the pension may need to be considered. The trustee should document the outcomes of this review by preparing a trustee minute and make any necessary changes to investments.

Set up pension and review death benefit nominations

The fund accounts should be adjusted to record the commencement of the pension and appropriate mechanisms put in place to make the regular pension payments. It is also important at this point to ensure that death benefit nominations remain valid and appropriate. For example, you should review whether or not a new and distinct death benefit nomination needs to be made directly in connection to the new pension account, or whether the rules of the fund provide that any valid nomination in connection with an accumulation interest also extend to a pension account of that member.

It may be possible upon the commencement of a pension for a member to establish a reversionary death benefit nomination. A reversionary nomination may provide for the member's pension to automatically revert to the nominated valid beneficiary upon the member's death. Before implementing a reversionary nomination, the trust deed should be reviewed to ensure that this type of nomination is acceptable under the rules of the fund.

Taxation obligations

If the member is under age 60, the fund will need to register as a PAYG payer and deduct tax (as applicable) from each payment. The member should provide the trustee with a TFN declaration form.

The trustee will have reporting obligations relating to the transfer balance cap. The transfer balance cap limits the amount that can be transferred into what is known as the 'retirement phase' of superannuation and receive the benefit of 0% earnings tax. An account based pension in retirement phase is assessed against the member's transfer balance cap. Once a TTR moves into retirement phase is also reported for transfer balance cap purposes at that time.

Trustees of SMSFs who require specific advice on meeting tax obligations should seek advice from a registered tax agent specialising in SMSFs.

NOTE: Please refer to the 'Transfer Balance Cap' Understanding Series for further information.

Calculate and pay pension payments to member

The trustee must ensure pension payments are paid at the requested frequency into the member's nominated bank account. The trustee should also ensure that at least the required minimum is paid each year. In the event that the legislated minimum annual pension payment is not paid, the fund may not qualify for the tax concessions applicable to earnings in retirement phase income streams (where a full condition of release has been met).

Ongoing review and maintenance

In addition to the usual trustee obligations, commencing a pension increases the fund's annual obligations, which may include arranging actuarial certificates, reviewing minimum pension payments, and issuing pension members with payment summaries (if appropriate) and Department of Human Services/DVA schedules (may be needed only if the pension commenced before 1 January 2015).

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Social Security – Age Pension

The Age Pension is a government payment designed to help retirees meet their income needs.

Benefits

- The Age Pension provides a regular income stream to improve your cash flow.
- Your assets may last longer, because the increased cash flow means you will have less need to draw on your personal investments.
- You will be entitled to a concession card to reduce the cost of some expenses (such as reduced cost medicines).

How it works

To qualify for the Age Pension, you first need to meet age and residency requirements. Department of Human Services then determines your entitlement based on your level of income and assets.

Age Pension payments are made fortnightly and can be paid directly into a savings account, such as a bank, building society or credit union account.

Age requirements

Currently you need to be aged at least 65 and 6 months to qualify for the Age Pension. The qualifying age will gradually increase to 67 by 1 July 2023, based on your date of birth.

Date of birth	Eligible age
Before 1 July 1952	65.0
1 July 1952 to 31 December 1953	65.5
1 January 1954 to 30 June 1955	66.0
1 July 1955 to 31 December 1956	66.5
On or after 1 January 1957	67.0

Residence requirements

The residency requirements generally require you to have been an Australian resident for at least 10 years. You must generally be an Australian resident living in Australia when you lodge the claim.

The residency rules and requirements may be different if you are covered by certain International Social Security Agreements. International agreements are complex and it is important that you seek guidance from Centrelink if you are intending to apply under the terms of an international agreement.

Age Pension payment rates

Payment rates are indexed every 20 March and 20 September. You should refer to the Department of Human Services website at www.centrelink.gov.au for the latest payment rates.

The rate payable will depend on whether you are single or a member of a couple and your means test assessment. This payment also includes an amount of Pension Supplement and an Energy Supplement.

The means test uses an income test and an assets test. The one that produces the lowest rate of pension is the one that applies.

Pensioner Concession Card (PCC)

If you are eligible for the Age Pension, you will also be entitled to a Pensioner Concession Card (PCC) to help reduce your expenses.

The PCC gives you access to a range of discounted medical services funded by the government including cheaper prescription medicines through the Pharmaceutical Benefits Scheme (PBS). Doctors may bulk bill if you hold this card and you may also receive some concession through your state, territory or local government. The range of concessions will vary depending on where you live and you should check at www.Australia.gov.au

Risks and Consequences

- If you are still working, the first $250 of employment income per fortnight will not impact your income test.
- If you are permanently blind you can receive the full Age Pension as the means-tests are not applied.
- Other benefits, such as Rent Assistance, may also be payable.
- The Age Pension is taxable income however you may be eligible for tax offsets to help to reduce your tax liability.
- You are required to tell the Department of Human Services within 14 days about any change in your circumstances that may affect your payment. If you don't are you're overpaid, you will be required to pay this amount back.
- Payments and entitlements may be affected if you go overseas for extended periods of time longer than six weeks. You should check details with the Department of Human Services and notify them before leaving the country.

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Social Security – Pension Income and Assets Tests - Department of Human Services

Pensions paid by the Department of Human Services are subject to income and asset testing unless you are permanently blind.

You may be entitled to the full pension if your assets and income are below the lower thresholds for both tests and meet all other eligibility requirements. Conversely, if your assets or income exceed either of the upper thresholds, you will not be entitled to any pension. Anywhere in between and you may be entitled to a part pension.

Both an income and assets test will be applied to determine the rate of payment you're entitled to. Your actual entitlement will be the lower of the amounts calculated under either the income or assets test.

Assets test

Under the assets test, the Department of Human Services generally uses the net market value of your assets which is the amount the asset can be sold for, less any debts that are secured against that asset. All assets owned by you and your spouse are assessed.

This includes most investment assets (such as shares, managed funds, superannuation and investment properties), plus personal assets such as motor vehicles and home contents. It could also extent to any formal or informal interests you have in trusts or private companies.

Importantly, your family home is not included in the assets test. Some other types of investments may be exempt (such as funeral bonds within allowable limits, or certain types of income streams which were commenced before 20 September 2007).

Your assessable assets are then assessed against the asset test thresholds. The thresholds that apply depend on whether you are single or a member of a couple, and whether or not you own your home. For every $1,000 worth of assets that you own in excess of the lower threshold, your pension entitlement reduces by $3.00 every fortnight (single or couple combined). Your entitlement under the assets test reduced to zero (you'll have no pension entitlement at all) once your asset level exceed the upper thresholds.

The current thresholds are:

Asset test thresholds for homeowners	20 September 2018	
Family situation	**Lower threshold**	**Upper threshold**
Single	$258,500	$564,000
Couple (combined)	$387,500	$848,000
Illness separated (couple combined)	$387,500	$998,500

Asset test thresholds for non- homeowners	20 September 2018	
Family situation	**Lower threshold**	**Upper threshold**
Single	$465,500	$771,000
Couple (combined)	$594,500	$1,055,000
Illness separated (couple combined)	$594,500	$1,205,500

The income test

The Department of Human Services will also assess your income to determine your pension entitlement. All income attributable to both you and your spouse is assessed.

The way income is determined for this purpose depends upon the nature of the income or investment.

For example:
- Residential investment property: all of the net income (after allowable deductions) is assessed

- Financial investments: 'deemed income' is calculated at set rates. The actual income derived is irrelevant, and it may be more or less than the deemed income. Financial investments include: bank accounts, shares, managed funds, superannuation held in accumulation after reaching age pension age, account-based pensions (unless grandfathered under deductible amount rules) and gifts that exceed the gifting thresholds.

If you have any involvement in a family trust or private company all of the income generated by that entity could be assessed as your income, depending on how the assets are assessed.

The income thresholds depend on whether you are single or a member of a couple. The current rates are:

Income test thresholds	1 July 2018	
Family situation	**Lower threshold**	**Upper threshold**
Single	$172.00	$2,004.60
Couple (combined)	$304.00	$3,066.80
Illness separated (couple combined)	$304.00	$3,969.20

For every $1 of income that you have in excess of the lower threshold, your Age pension entitlement reduces by 50 cents in the dollar (single or couple combined).

Risks and Consequences

- Assessable income for Department of Human Services purposes can be different to the actual income you receive and what is included in your tax return.
- If you are applying for an allowance, different income and asset test thresholds apply.
- Payments may be affected if you go overseas for extended periods of time. You should check details and let the Department of Human Services before leaving the country.
- You are considered to be a couple if you are married or in a de-facto relationship (including same-sex) and living together on a permanent basis, regardless of how long this relationship has existed.
- An illness-separated couple rate applies where you are a couple but one or both have moved out of the home to receive care.
- You are required to tell the Department of Human Services within 14 days about any change to your income or assets that may affect your payment. If you don't and you receive an overpayment, you will be required to repay this amount.

Version: 1.06

Social Security – Disability Support Pension (DSP)

The Disability Support Pension (DSP) is a payment from the Department of Human Services that provides financial support to people who have a physical, intellectual, or psychiatric condition that stops them from working.

Benefits

- The DSP provides a regular income stream to improve your cash flow.
- Your assets may last longer, because the increased cash flow means you will have less need to draw on your personal investments.
- You will be entitled to a concession card to reduce the cost of some expenses (such as reduced cost medicines).

How it works

To qualify for the DSP, you must be over age 16 and have a physical, intellectual or psychiatric impairment that results in you being unable to work for 15 hours or more each week (at or above the relevant minimum wage) within the next two years or you are permanently blind. You must have also actively participated in, or completed, a Program of Support if required.

To assess your eligibility for DSP, the Department of Human Services may require a report from your doctor or specialist about your disability, injury or illness. You may also need to have a Job Capacity Assessment which is a way of finding out if you can work, how much work you can do and whether you need to help find and keep a job.

DSP payments are made fortnightly and can be paid directly into a savings account, such as a bank, building society or credit union account.

Residence requirements

The residency requirements generally require you to have been an Australian resident for at least 10 years. You must generally be an Australian resident living in Australia when you lodge the claim.

The residency rules and requirements may be different if you are covered by certain International Social Security Agreements. International agreements are complex and it is important that you seek guidance from Centrelink if you are intending to apply under the terms of an international agreement.

DSP payment rates

Payment rates increase every 20 March and 20 September for those 21 years of age and over, or under 21 years of age with children. The rates are updated on 1 January of each year for those under 21 years of age without children. You should refer to the Department of Human Services website for the latest payment rates:
www.humanservices.gov.au/customer/services/centrelink/disability-support-pension

The rate payable will depend on whether you are single or a member of a couple and your means test assessment. This payment may also include a pension supplement and an energy supplement.

Income and assets tests

The amount of DSP you get is subject to two separate assessments – an assets test and an income test. The Department of Human Services apply both of these tests to your situation and the test that results in the lower rate of DSP is the one that is applied. If you are permanently blind, you may not be subject to the income or assets test.

Pensioner Concession Card (PCC)

If you are eligible for the DSP, you will also be entitled to a Pensioner Concession Card (PCC) to help reduce your expenses.

The PCC gives you access to a range of discounted medical services funded by the government including cheaper prescription medicines through the Pharmaceutical Benefits Scheme (PBS). Doctors may bulk bill if you hold this card and you may also receive some concession through your state, territory or local government. The range of concessions will vary depending on where you live and you should check at www.Australia.gov.au

Risks and Consequences

- Other benefits, such as Rent Assistance, may also be payable.
- If you are permanently blind you may not be subject to the assets and income test and can receive the full DSP.
- The DSP is taxable income for people of age pension age however you may be eligible for Tax Offsets to help reduce your tax liability.
- The DSP is tax-free income for people below age pension age.
- Payments may be affected if you go overseas for extended periods of time. You should check details with the Department of Human Services before leaving the country.
- You are required to tell the Department of Human Services within 14 days about any change in your circumstances that may affect your payment. If you don't and you receive an overpayment, you will be required to pay this amount back.

Version: 1.06

Social Security – Newstart Allowance

Newstart Allowance is a Department of Human Services payment that provides financial help if you are looking for work. It can also provide support while you do activities that increase your chances of finding a job, such as studying or training.

Benefits

- Newstart Allowance provides a regular income stream to improve your cash flow.
- Your assets may last longer, because the increased cash flow means you will have less need to draw on your personal investments.
- You will be entitled to a health care card to reduce the cost of some expenses (such as reduced cost medicines).

How it works

To qualify for Newstart Allowance, you generally need to be:

- age 22 or older (but under Age Pension age);
- looking for paid work;
- prepared to enter into a Job Plan and meet activity-test requirements; and
- Meet the income and assets Test.

You may have to serve some waiting periods before Newstart becomes payable. You will have to serve the Ordinary Waiting period of one week before you can start receiving Newstart Allowance. You may have to serve additional waiting periods if if you have just finished a job (due to the income maintenance period) or you have certain levels of liquid assets (due to the liquid assets waiting period).

Other waiting periods may also apply if you don't meet work tests or move to an area with lower job prospects.

Job Plan

You need to have a Job Plan in order to get a Newstart Allowance. Your Job Plan outlines the things you have agreed to do to give you the best chance of getting a job. You will need to negotiate your Job Plan with the Department of Human Services or your Employment Services Provider. It will be reviewed regularly. Activities can include applying for jobs, undertaking a course or other types of study, or working part time. You are required to do the activities listed in your Job Plan in order to keep receiving the allowance.

Your activity requirements may be more flexible if you:

- are 55 years or older or
- are a principal carer, or
- have a medical condition

Residence requirements

The residency requirements generally require you to have been an Australian resident for at least 2 years but some exemptions apply. You must still be an Australian resident living in Australia when you lodge the claim.

Newstart Allowance payment rates

Payment rates increase every 20 March and 20 September. You should refer to the Department of Human Services website at www.humanservices.gov.au/customer/services/centrelink/newstart-allowance for the latest payment rates.

The amount you receive will depend on whether you are single, a member of a couple and/or have dependent children and is means tested. The income and assets tests are used to work out your payment rate. The test resulting in the lowest payment rate will apply.

Assets test

Under the assets test, the Department of Human Services generally uses the net market value of your assets which is the amount the asset can be sold for, less any debts that are secured against that asset. All assets owned by you and your spouse are assessed.

This includes most investment assets (such as shares, managed funds and investment properties), plus personal assets such as motor vehicles and home contents. Importantly, your family home is not included in the assets test. Some exemptions apply if you bought non-commutable income streams before 20 September 2007 or you invest in funeral bonds within the allowable limit. Special penalty rules also apply if you have any involvement in a family trust or private company. Your superannuation account balance is also exempt from the income and asset testing if it is in accumulation phase (and the account holder has not yet reached their Age Pension age).

The thresholds from 1 July 2018 are:

Family situation	Homeowner	Non-homeowner
Single	$258,500	$465,500
Couple (combined)	$387,500	$594,500
One partner eligible, combined assets	$387,500	$594,500

If your assets exceed the threshold above that applies to your situation, you will not be entitled to any Newstart Allowance.

Income test

Income above $104 and up to $254 per fortnight reduces your fortnightly payment by 50 cents in the dollar and income above $254 per fortnight reduces your payment by $75 plus 60 cents in the dollar.

If you are a member of a couple, income earned by your partner in excess of the upper threshold also reduces your payment by 60 cents in the dollar. If your partner gets a payment from the Department of Human Services, your income may also affect the amount they get. The Upper Threshold is increased if you are a principal carer.

Family situation	Lower threshold	Upper threshold
Single, no children	$104.00	$1,060.67
Single, dependent child (principal carer)	$104.00	$1,615.50
Single, aged 60 or over, after nine months	$104.00	$1,631.50
Partnered (each)	$104.00	$970.00

If your income reaches the upper threshold, no Newstart Allowance is payable.

With some assets, such as a residential investment property, all of the net income (after allowable deductions) is counted under the income test. For other assets, 'deeming' applies.

Under deeming, an interest rate set by the government is applied to the balance of financial investments to "deem" the amount of income generated. The actual income derived is irrelevant. Financial investments include: bank accounts, shares, managed funds, superannuation held in accumulation after reaching Age Pension age, account-based pensions (unless grandfathered under deductible amount rules) and gifts that exceed the gifting thresholds.

If you have any involvement in a family trust or private company all of the income generated by that entity could be assessed as your income, depending on how the assets are assessed.

Health Care Card (HCC)

If you are eligible for Newstart Allowance, you will also be entitled to a Health Care Card (HCC) to help reduce your expenses.

The HCC gives you access to a range of discounted medical services funded by the government including cheaper prescription medicines through the Pharmaceutical Benefits Scheme (PBS) and some public transport discounts. Doctors may also bulk bill.

Risks and Consequences

- If you qualify for Newstart Allowance, you may also be eligible to receive other support such as Pharmaceutical Allowance, Rent Assistance and Telephone Allowance.
- Newstart Allowance may be recalculated half-yearly or when your circumstances change.
- Newstart Allowance is taxable income however you may be entitled to tax offsets that will reduce some or all of the tax payable.
- Payments may be affected if you go overseas for extended periods of time. You should check details with the Department of Human Services before leaving the country.
- You are required to tell the Department of Human Services within 14 days about any change in your circumstances that may affect your payment.

Version: 1.06

Social Security – DVA Service Pension

Service pensions from the Department of Veterans' Affairs (DVA) provide regular income to help veterans and their partners achieve an adequate level of income in retirement.

Benefits

- A DVA Service Pension provides a regular income stream to improve your cash flow.
- Your assets may last longer, because the increased cash flow means you will have less need to draw on your personal investments.
- You will be entitled to a concession card and may also be entitled to a health card to reduce the cost of some expenses (such as reduced cost medicines).

How it works

DVA Service Pensions can be paid to veterans who are over the age of 60 or meet invalidity requirements. The veteran's partner may also qualify for a DVA partner pension instead of needing to apply through the Department of Human Services.

It is important to speak to DVA to confirm your eligibility and full entitlements as you may receive concessions other than those outlined below.

Age Service Pension

Veterans qualify for the service pension earlier than the Department of Human Services Age Pension in recognition of war service. If you are a veteran, you may be eligible for the Age Service Pension if you:

- have reached age 60
- have qualifying service (this generally means that you have served in operations against the enemy while in danger from hostile forces of the enemy)
- meet residency requirements (and you are a resident of Australia and present in Australia at the time of lodging your claim).

The Age Service Pension is assessable income and must be included in your tax return. There are two rates of Service Pension - the single rate and the couple rate. The rate paid for each member of a couple is less than the rate paid to a single person because couples can share household costs. You should refer to the DVA website at www.dva.gov.au to find out more and to obtain the current pension rates, limits and allowances.

Invalidity Service Pension

If you are a veteran, you may be eligible for an Invalidity Service Pension if you:

- below Age Pension age (currently age 65.5)
- are permanently incapacitated for work (your incapacity does not need to be related to war service)
- have qualifying service (this generally means that you have served in operations against the enemy while in danger from hostile forces of the enemy)
- meet residency requirements (you are a resident of Australia and present in Australia at the time of lodging your claim).

The Invalidity Service Pension is not taxable whilst you are under Department of Human Services pension age (currently age 65.5). You should refer to the DVA website at www.dva.gov.au to find out more and to obtain the current pension rates, limits and allowances.

Partner Service Pension

You may be eligible for the Partner Service Pension if your spouse (married or defacto) is a veteran receiving a Service Pension. To be eligible for the Partner Service Pension, you need to:

- be at least age 60, or
- have dependent children and be any age, or
- be any age if your spouse receives Special Rate Disability Pension, or
- be at least age 50 if your spouse receives an above general rate Disability Pension.

In some circumstances, you can be eligible for the Partner Service Pension if you are married to, but separated from, a veteran who is eligible to receive the Service Pension.

The Partner Service Pension is taxable. But if you and your partner are both under Department of Human Services pension age and your partner receives an Invalidity Service Pension (or did until he/she passed away) the pension will be tax-free.

Please Note: Age Pension age (non-veteran) will increase by six months every two years until it reaches 67 on 1 July 2023. This will not affect you if you were born before 1 July 1952.
You should refer to the DVA website at www.dva.gov.au to find out more and to obtain the current pension rates, limits and allowances.

Veterans' Health Cards

DVA issues health cards to eligible veterans and former members of Australia's defence force, their widows/widowers and dependants. There are different eligibility requirements for each type of card.

Pensioner Concession Card (PCC)

If you are eligible for a Service Pension you will also receive a Pensioner Concession Card (PCC) to help reduce your expenses.

The PCC gives you access to a range of discounted medical services funded by the government including cheaper prescription medicines through the Pharmaceutical Benefits Scheme (PBS). Doctors may bulk bill if you hold this card and you may also receive some concession through your state, territory or local government. The range of concessions will vary depending on where you live and you should check at www.Australia.gov.au

Risks and Consequences

- If you are still working and over Age Pension age (currently 65.5), the first $250 of employment income per fortnight will not impact your income test.
- Other benefits, such as Rent Assistance, may also be payable.
- If your Service Pension is taxable income you may be eligible for Tax Offsets to help reduce your tax liability.
- You are required to tell the DVA within 14 days about any change in your circumstances that may affect your payment. If you don’t and you receive an overpayment, you will need to repay this amount.

- You cannot receive a Service Pension from the DVA as well as an Age Pension from the Department of Human Services.

Version: 1.06

Social Security – Gifting

Gifting is when you or your partner give away assets or transfer them for less than their market value. You are able to gift assets or money to someone else to help them financially. However, there are rules that apply to limit how much you're able to gift, without impacting your assessment for Department of Human Services/Veterans' Affairs (DVA) entitlements, and aged care fees.

Benefits

- You will be able to provide financial assistance to family members.
- Your Department of Human Services/DVA entitlement may increase because the gift reduces your assessable income and assets (as long as it is within the allowable limits).
- The daily fees for aged care services may decrease due to the reduced assessable income and assets.

How it works

You can only gift within certain limits, without triggering the 'deprivation rules' for the purpose of your Department of Human Services/DVA entitlements. The maximum amount of assets you can give away within the limit is:

- $10,000 each financial year; but no more than
- $30,000 over a rolling five-year period.

These figures also represent the total combined amount that a couple can give away before the deprivation rules are triggered. The rolling five-year period is the current financial year plus the previous four financial years.

If you transfer ownership of assets between yourself and your spouse gifting rules do not apply as your assessment includes the combined total assets.

Gifting more than the allowable limit- Deprived Assets

If you gift more than the allowable limit, the excess is assessed by the Department of Human Services/DVA as a 'deprived asset'.

A deprived asset will continue to count under the assets test and be deemed for income test purposes for five years from the date of the gift.

When you first apply for a Department of Human Services/DVA payment, any gifts made in the previous five years are also considered and excess amounts will be captured as a deprived asset.

Risks and Consequences

- Gifting assets reduces your savings. It is important to ensure you continue to have sufficient savings available for ongoing needs.
- If you exceed the allowable limit you will have a deprived asset which will be assessed against you for 5 years from the date of the excess gift.
- If a gift is repaid, any deprived asset that was created will be eliminated.

- You are required to notify the Department of Human Services/DVA within 14 days about any change in your circumstances that may affect your entitlement.

Version: 1.06

Social Security – Insurance bond in a private trust

Investing in an insurance bond through a private trust such as a family or discretionary trust may increase your Department of Human Services/Veterans' Affairs (DVA) entitlement and reduce aged care fees due to a reduction in assessable income.

Benefits

- Your assessable income may be reduced which may increase your Department of Human Services/DVA entitlement under the income test
- The daily care fees you pay for aged care services may decrease as a result of the reduction in assessable income
- Your personal taxable income may be reduced which may reduce your tax liability (in some cases) and/or help you to qualify for a Commonwealth Seniors Health Card if you are a self-funded retiree
- The private trust may provide estate planning benefits, such as asset protection.

How it works

If you already have a private trust it is generally more effective to start a new trust for this strategy. You can then arrange to have money transferred into the trust which is recorded as a gift in the trust accounting records.

You need to nominate someone to act as Trustee of the trust.

The money transferred into the trust is used to invest into an insurance bond, sometimes also known as an investment bond. Insurance bonds do not distribute income unless a withdrawal is made, which means there is no taxable income generated by the trust for distribution to beneficiaries.

If the bond is the only investment held by the trust there is no assessable income for the Department of Human Services/DVA income test. This reduces assessable income compared to some other investments.

Department of Human Services/DVA assessment

Department of Human Services/DVA attribute the assets and income of a private trust depending on who controls the trust and the source of the money. As a general rule, if you transferred the money into the trust, or if you are associated in any way with the trust it is likely that the Department of Human Services /DVA will attribute all assets to you.

Under the asset test, the Department of Human Services /DVA will count the full value of the trust assets, so using a trust does not help to reduce your assessable assets.

If the only asset is an insurance bond and no withdrawals are made in the first 10 years (or before the death of the life insured) there is no assessable income created. This may reduce your assessable income.

Aged care assessment

The daily care fees payable for either government subsidised home care or residential care depends on your financial situation. For home care, it is generally based on Department of Human Services/DVA assessable income. For residential care it is generally based on Department of Human Services/DVA assessable income as well as your assets.

So reducing the income assessed by the Department of Human Services/DVA may reduce your care fees.

Withdrawals

You can withdraw money from the insurance bond at any time. These amounts will be paid to you from the trust as a distribution.

A portion of the withdrawal may be classified as taxable income and this is assessed as income for Department of Human Services/DVA and aged care purposes for the following 12 months. So for the strategy to be most effective you need to leave the money in the insurance bond (and therefore within the trust) for at least 10 years or as an estate benefit upon your death.

Taxation

Earnings from the insurance bond are reinvested into the bond to increase the account balance. The insurance company pays tax on the earnings at the rate of 30%.

If you make a withdrawal from the trust within the first 10 years, a portion of the earnings are included as taxable income of the trust and then are passed on as taxable income to the beneficiary who receives the distribution.

The taxable portion is calculated as:

- Within first 8 years – all earnings withdrawn are taxable income
- Within the 9th year – two-thirds of earnings withdrawn are taxable income
- Within the 10th year – one-third of earnings withdrawn are taxable income
- After 10 years or upon death – none of the earnings withdrawn are taxable income

Risks and Consequences

- Earnings from an insurance bond are taxed internally at a rate of 30%. If this rate is higher than your marginal tax rate your net return from the insurance bond may be less than what could be achieved from other investments.
- If your Department of Human Services/DVA entitlements are assessed under the assets test this strategy will not increase your entitlements.
- If you are likely to pay the maximum aged care fees this strategy may not provide any benefit to reduce fees.
- Assets held in a private trust do not form part of your estate. You should seek legal advice to review the nomination of a beneficiary on the insurance bond and how this will interact with the trust deed for your private trust. It is also advisable to review your Will.
- You are required to tell Department of Human Services/DVA within 14 days about any change to your financial situation that may affect your payment.
- You may incur fees to set up the trust and for ongoing accounting requirements.
- Fees may also be charged for the investment into the Insurance Bond. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS).

Version: 1.06

Social Security – Strategies to increase Department of Human Services/DVA entitlements

Your entitlement from the Department of Human Services/Veterans' Affairs (DVA) is subject to income and asset testing. Reducing your assessable income and assets can therefore increase your entitlement.

Benefits

- Your Department of Human Services/DVA entitlement may increase to help top-up your retirement income
- The daily care fees you pay for aged care services may decrease
- Increased cash flow means your assets will last longer because you will have less need to draw on assets to meet expenditure needs.

How it works

Department of Human Services/DVA apply two tests to determine your entitlement – an asset test and an income test. Both tests are applied to your situation and the test that results in the lower rate of payment is the one that is applied.

Some assets are exempt from these tests and others may receive more favourable assessment. Following are some strategies that can help to reduce your level of income and assets.

Home improvements

The value of your home is exempt from Department of Human Services/DVA income and asset testing, so spending money to improve your home may increase its value and also increase your entitlement.

However, it is important to remember that, although you may get an increase in your entitlement, spending money on renovations also reduces your savings. It is also possible that the increase in the market value of your home will be less than the amount that you spend on renovations. You should ensure you will continue to have sufficient money to meet your ongoing needs.

Funeral bonds

A funeral bond is an investment that is used solely to pay for your future funeral expenses. It can provide you with peace of mind knowing your family members won't have the financial burden of paying for your funeral.

Funeral bonds are exempt from Department of Human Services/DVA income and asset testing but only if:

- You have not already pre-paid your funeral expenses (including purchase of a cemetery plot), and
- You do not invest more than the allowable limit in funeral bonds (threshold is indexed on 1 July each year).

The allowable limit applies per person, but if you are a couple and have one bond that is payable upon the death of the last person no more than the limit can be invested in this bond.

All earnings are retained in the funeral bond and taxed in the hands of the provider at the company tax rate. The balance of the bond cannot be accessed until your death.

Upon your death, if any or all of the bond proceeds is paid to your estate, a portion will be assessable income and taxed as part of the estate's income. The funeral bond issuer will provide this information at that time. If the amount is paid directly to a funeral director, no income is assessable to your estate.

Pre-paid funeral expenses

Pre-paid funeral expenses are when you enter into a contract for the provision of funeral services. It can provide you with peace of mind knowing your family members won't have the financial burden of paying for your funeral.

The agreement with a funeral director allows you determine aspects of your funeral and pay today's price. Depending on the funeral director, you may be able to pay a single upfront payment or via a series of instalments. The payments are generally non-refundable. However an exemption is when you move outside the designated funeral service area. The amount paid may be invested at the discretion of the funeral director who generally also receives any earnings on those investments.

It is important to understand the terms of your specific contract particularly if there will be any change in the services nominated when these are provided in the future.

The amount paid for the pre-paid funeral expenses is exempt from Department of Human Services/DVA income and asset testing, regardless of the amount paid. There is no limit on the amount that can be pre-paid funeral expenses.

It is not possible to have both an exempt funeral bond and pre-paid funeral expenses.

Superannuation (accumulation phase)

Your superannuation account balance is exempt from Department of Human Services/DVA income and asset testing if it is in accumulation phase and you are under Age Pension age (currently age 65.5) or Service Pension age for veterans (currently age 60). After this age, your superannuation balance is assessed as an asset and subject to deeming.

If you have a spouse who is under Age Pension age (or Service Pension age if they are a veteran), withdrawing some of your superannuation and making a contribution into spouse's account will reduce your assessable assets and income which may result in an increase in your Department of Human Services/DVA entitlement.

You should ensure your spouse is eligible to make personal contributions to superannuation and the contribution is within their contribution caps so tax penalties are not applied, and it is important to remember that you will not be able to access this money until your spouse meets a condition of release under superannuation law.

Annuities

An annuity is an investment that pays a series of regular guaranteed income payments for either a fixed period of time or for life. They may be purchased with superannuation funds or non-superannuation monies.

Key Features of Annuities

I. **Security** - Your interest and capital payments are guaranteed, regardless of share market movements or interest rate fluctuations.
II. **Flexible terms and payments** - With annuities you can choose your investment term. Fixed term annuities are generally available for fixed terms of between one and 50 years. The investor selects the term most appropriate to them.
III. **The term of a lifetime annuity is the rest of the investor's life** - income payments continue until they die. It can be as short as one year, as long as 50 years or even for your lifetime. You can also select how often you get paid - monthly, quarterly, half-yearly or annually.
IV. **Lifetime income** - In the case of a lifetime annuity, regular and guaranteed payments for the rest of your life.
V. **Inflation protection** - With some annuities, you can elect to index your payments so they keep pace with inflation or at a fixed indexation rate.
VI. **Tax effectiveness** - When an annuity is bought with money rolled over within the superannuation system by a person aged 60 or over, the regular payments are tax free.
VII. **Access to your money** - If you would like to cancel your annuity, in most cases you will receive a return of your investment but you may receive back less than you invested originally and less than you would have received had you held the annuity for its agreed term.

How are Annuities assessed?
Both lifetime annuities and 100% capital return annuities with terms of six years and above receive favourable treatment under the asset and income tests for Age/DVA pensions and daily aged care fees.

The income of an annuity is assessed by the Department of Human Services/DVA's income test as follows:
- subject to deeming rates where the term is five years or less, or
- total income is reduced by a 'deductible amount' that reflects a return of the purchase price where the term is more than five years.

The amount you invest into an annuity is assessed under the Department of Human Services/DVA's Assets test. If you choose to receive all of the capital at the end of the selected term, the assessed asset value does not change. If you choose to have some of the capital returned as part of the regular payments, the asset value is recalculated every six to 12 months and reduced by the amount of capital returned up to that time.

Asset valuation
Valuing your assets the right way can be a simple way to increase your entitlement.

Assets should be valued using market value, rather than insured value. This is particularly the case for assets such as cars and home contents which are often insured for a higher value to ensure they can be replaced if they are destroyed or damaged.

Gifting and purchasing an insurance bond within a private trust can also assist you to increase your entitlements. Please refer to the 'Gifting' and 'Insurance Bond in a Private Trust' Understanding Series for further information.

Risks and Consequences

- You should ensure you have sufficient funds to support yourself before undertaking any strategy that reduces the value of your assets. This is particularly important if the strategy results in you no longer having access to that money, such as annuities, home improvements or funeral bonds.
- A lifetime annuity has nil residual capital value, meaning nothing is paid to your dependants or estate upon your death. The exceptions are if you have selected a reversionary annuitant or if a

guaranteed income period has been selected and you pass away within this period. In this event, your beneficiaries or estate will only receive what would have been paid to you during the guaranteed period. Depending on how long you live, there could be an overall loss of capital.

- Annuities are not investment linked so your capital will not grow and you cannot take advantage of favourable market movements.
- With Annuities, you are locked in to a specific rate of return for the rest of the term (or life). If interest rates rise, you are not able to take advantage of the higher potential return without incurring penalties.
- Once an annuity is established, the amount and frequency of the income payments cannot be altered.
- You are required to notify the Department of Human Services /Department of Veterans' Affairs within 14 days about any change to your situation that may affect your entitlement.
- The government may change legislation in the future.

Version: 1.06

Social Security – Waiting periods

Depending on your circumstances, you may need to wait for a period of time before getting your first income support payment. There are different types of waiting periods. One or more of these may apply to you.

Ordinary Waiting Period

If you are applying for certain payments including Newstart Allowance or Sickness Allowance, you will most likely need to serve a one-week Ordinary Waiting Period. Only in certain circumstances, such as if you are in severe financial hardship, you can be exempt from having to serve the Ordinary Waiting Period.

Liquid Assets Waiting Period

If you are applying for Newstart, Sickness Allowance, Youth Allowance or Austudy, you may have to serve a Liquid Assets Waiting Period (LAWP). Only in certain circumstances, such as if you are in severe financial hardship, you can be exempt from having to serve the LAWP.
The liquid assets waiting period is between 1 and 13 weeks and applies if you have funds that are equal to or more than:

- $5,500 if you are single with no dependants, or
- $11,000 if you are partnered or single with dependants

Liquid assets are funds that are readily available to you or your partner, including;

- cash on hand, shares, debentures, insurance bonds and term deposits
- other money available at short notice
- payments made or expected to be made (within 28 days) from a previous employer
- compensation payments
- amounts deposited or lent to banks or other financial institutions whether or not the amount can be withdrawn or repaid immediately.

Please Note: Liquid assets do not include superannuation in the accumulation phase.

How is the LAWP calculated?

Your liquid assets waiting period is determined by your personal situation and the amount of funds you have.

The LAWP is calculated using the following formulas:

Single persons with no dependants

$$\frac{\text{Liquid assets} - \$5{,}500}{\$500}$$

Couples or singles with dependants

$$\frac{\text{Liquid assets} - \$11{,}000}{\$1{,}000}$$

For example:

Geoff is married. His liquid assets total $19,400. His LAWP is calculated as ($19,400 - $11,000) / $1,000 = 8.4, which is rounded up to 9 weeks.

The maximum LAWP is 13 weeks and is in addition to the ordinary one week waiting period

Income Maintenance Period

The Income Maintenance Period (IMP) can apply if you are a new customer claiming Newstart, Partner Allowance, Parenting Payment, Sickness Allowance, Youth Allowance, Austudy, Widow Allowance or Disability Support Pension (except if you are permanently blind). The IMP most commonly applies where you have received leave and/or termination payments from your previous employer.

The IMP is the period that Department of Human Services treat any leave and termination payments received, as income. Leave and termination payments include annual leave, carers leave, leave loading, long service leave, maternity leave, rostered days off, sick leave, and redundancy payments.

Calculating the length of the IMP

The leave and termination payments will count as income for the number of weeks that the payments relate to. Usually this means you will be excluded from receiving a payment for that many weeks. The IMP can be served concurrently with other waiting periods.

The following table sets out how to calculate the length of the IMP depending on your employment situation.

If your employment has ceased	The length of the IMP is calculated by adding together: (1) the number of weeks (or days) that the leave payments represent, and (2) the number of weeks that the portion of the termination payment based on your wage represents, and (3) the number of weeks that the portion of the termination payment NOT based on the employee's gross wage (e.g. a gratuity payment) represents. This is obtained by dividing that portion of the termination payment by your weekly wage.
If you continue to work	The actual leave period is used.

Note: An IMP is calculated using the total gross leave or termination payment and, where relevant, your gross weekly wage. For example:

Kevin has been made redundant from a company and on the day of leaving he receives a redundancy payment consisting of:

I. 4 weeks annual leave,
II. 9.5 weeks long service leave,
III. $20,500 gratuity payment ('golden handshake'), and
IV. 3 weeks payment in lieu of notice.

Kevin's IMP will be calculated as follows:

I. 4 weeks annual leave = 4 weeks IMP,
II. 9.5 weeks long service leave = 9.5 weeks IMP,
III. $20,500/$1,000 (Kevin's gross weekly income) = 20.5 weeks rounded down to 20 weeks IMP, and
IV. 3 weeks payment in lieu of notice = 3 weeks IMP.

> The total IMP period will be 36.5 weeks. Kevin's total redundancy payment will be apportioned as ordinary income over this 36.5 week period and assessed under the applicable income test.
>
> Kevin is also subject to the one-week Ordinary Waiting Period and the LAWP (because of the leave payments and his bank balance. He will serve the maximum 13 week LAWP plus the one week waiting period.
>
> The ordinary waiting period and LAWP can be served concurrently with the IMP, so he has a total wait of 36.5 weeks.

The IMP can be waived or reduced in very limited circumstances, such as if you are in severe financial hardship because of having to use the leave payments to pay any unavoidable or reasonable costs (such as essential car or home repairs or essential medical expenses). The IMP will not be waived or reduced if you spend your employer payments on expenses that are not considered to be unavoidable or reasonable (such as mortgage, rent or holidays).

Unemployment Non-payment Period

If you choose to leave your job or are dismissed from your job because of misconduct, you may have an 8 week non-payment period. The period can be 12 weeks if you got relocation assistance through your Employment Services Provider.

This non-payment period may be waived if you meet the eligibility criteria and you’re in severe financial hardship.

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Social Security – Aged Care

As you grow older, you may find that you need more help with day-to-day tasks or health care. Sometimes, the best way to receive help and support can be by living in an aged care home or arranging for home care services while you stay in your own home.

Benefits

Aged care services are heavily regulated and in many cases subsidised by government to ensure that care is accessible to all Australians. The government will subsidise the cost of care and you will also pay a portion of costs based on your assessable income and assets (if applicable).

- Residential aged care can provide the support you need as you age and reduce the burden and stress on your family. If moving to an accredited service, the government will subsidise costs to help make the care affordable. There are a number of fees that you may be asked to pay to help cover the cost of your care. Some of these fees are determined based on your assets and income
- Home care can help you to stay in your own home for longer. The Department of Human Services use an income assessment to work out if you can get government subsidised Home Care.
- Your family home is exempt under the assets test while a spouse is still living there.
- If your spouse (if applicable) is not moving to an aged care facility with you, your Age Pension entitlement will increase given that the Department of Human Services /DVA now classifies you as being an illness separated couple.

How it works

The first step to moving into a government subsidised aged care service is that you need to have approval from an Aged Care Assessment Team (ACAT). In Victoria these are called an Aged Care Assessment Service (ACAS).

ACAT assessment

These are teams of health professionals, such as doctors, nurses or social workers, who will conduct an assessment of your needs to determine whether you are approved for residential aged care or home care packages.

Home Care

If you are assessed as eligible for a home care package you will:

- receive a letter of approval from My Aged Care that sets out the level of home care package you are approved to receive
- be placed in a national priority queue for home care packages

There may be a waiting period between the time you are approved for care and the time you are assigned a home care package.

Costs for Home Care Packages

Your service provider may ask you to pay:

- a basic daily fee of up to 17.5% of the single basic Age Pension

- an income-tested care fee if your income (from certain sources) is over a certain amount.

You can only be asked to pay an income-tested care fee if your yearly income is above a certain threshold. Current thresholds can be found on the Department of Health website at www.health.gov.au.

There are annual and lifetime caps that apply to the income-tested care fee. Once these caps are reached, you cannot be asked to pay any more income-tested care fees.

Residential Care

Once approved for residential care, you can apply for a residential care place. The service provider will charge fees to cover the cost of accommodation as well as daily care and living expenses. Charges may also be applied for other additional services. These fees include:

- Accommodation payment – payment for the room and access to amenities
- Basic daily fee – a contribution towards the daily cost of care
- Means-tested fee – an additional contribution towards the cost of care based on affordability
- Additional service fees – generally on a user pays basis where the resident requests or agrees to additional services.

The government sets rules for how these fees can be charged and the amounts. In some cases, service providers may charge additional fees (such as capital refurbishment fees) so it is important to ask the service provider for a full schedule of fees before signing a Resident Agreement. The fees should all be specified in your agreement.

Basic daily fee

Every resident is asked to pay a basic daily fee. This is a contribution towards the cost of living expenses such as meals, cleaning, laundry, heating and cooling.

This fee is set at 85% of the annual single basic rate of age pension and will increase each March and September in line with changes to the age pension rate.

Means-tested fee

The government subsidises the cost of care, but residents who have income and assets over a certain level will be asked to pay an additional means-tested fee to help cover the costs of care. This reduces how much the government pays as a subsidy.

This fee is capped at an annual amount and is also capped over a lifetime.

The fee payable is calculated by the Department of Human Services (DHS) based on a combined assessment of income and assets. Income and assets are assessed using mostly the same rules as used by the Department of Human Services to calculate pension entitlements, subject to some important exceptions.

When moving into care you can choose to fill out the Combined Income and Assets Assessment form so that DHS can calculate your fee. If you do not fill in this form, you will need to pay the full cost of your care, up to the annual maximum fee. Advice can help you to determine if you need to fill in this form and the implications of not doing so.

Accommodation payment

If you move into permanent residential care you need to pay for your accommodation. This price is set by the service provider based on factors such as location, quality of accommodation and demand. It is published on the myagedcare.com.au website as well as the service's own website.

If you have income and assets below certain thresholds you may be able to apply for admission as a 'low-means resident'. If approved, the government will subsidise your accommodation as well as your care and your contribution towards accommodation is determined by a formula based on your financial capacity. The accommodation payment can be charged as a lump sum (refundable accommodation deposit – RAD) or a daily fee (daily accommodation payment – DAP). The service provider will provide both amounts to you and after you move into care you can choose which option you wish to pay. You can also choose any combination of a RAD and DAP.

There are many strategies and options for how you pay this fee so advice is important to determine the implications and best strategy for you.

The RAD is a refundable deposit. The balance is repaid to you or your estate when you leave. The service provider can only deduct amounts if you have fees unpaid or you have asked them to deduct fees from the RAD instead of paying the fees from your cash flow. If you pay a RAD to an approved provider, repayment of the RAD is guaranteed by the government.

Risks and Consequences

- The calculation of fees can be complex and decisions you make in relation to your former home and or investments can impact not only your cash flow but also your Age Pension entitlements and aged care fees payable. It is important to seek advice to compare options so you can make an informed decision.
- The accommodation costs can vary widely. You may wish to shop around and compare services in your desired location and compare the costs and what you receive for your money to determine if you can afford a place in that service.
- Rental income derived from your family home is assessed as income for the purpose of calculating your social security entitlement and aged care fees. If you're an existing care resident and entered care prior to 1 January 2017 or 1 January 2016, you may be entitled to assessment under special rules, depending on your date of entry.
- If you rent out your home while in residential care and are absent from your home for more than six years, or if you have previously used this home as a rental property, you may have to pay capital gains tax.
- If you leave your home vacant, the home is exempt under the social security assets test for two years from the date you enter the aged care facility, during which time you are considered a homeowner. After you have been absent for two years, your home will be counted, and Department of Human Services will consider you to be a non-homeowner. Your entitlements may decrease.
- If you pay your accommodation costs as a lump sum, either in part or in full, you can only withdraw the lump sum, and commence paying daily payments, at the discretion of the facility.
- If you draw any fees from your RAD, the facility may ask you to top up the lump sum, or commence paying additional daily payments. This will also impact the lump sum refund you receive when you cease care at the facility. You should confirm these arrangements directly with the facility.
- If you move into an aged care facility you will not be eligible for rental assistance.
- You are required to notify the Department of Human Services/Department of Veterans' Affairs within 14 days about any change to your situation that may affect your entitlement.
- The government may change legislation in the future.

Version: 1.06

Retirement Income – Annuities

An annuity is an investment that pays a series of regular guaranteed income payments for either a fixed period of time or for life. Subject to the terms of the particular annuity you purchase, the provider may offer a range of features and benefits across their suite of products. We have summarised some of the benefits that may be on offer below. Annuities can be purchased with either superannuation or non-superannuation money.

Benefits

- **Security** - Your interest and capital payments are guaranteed, regardless of share market movements or interest rate fluctuations.
- **May be a variety of options for terms and payment frequency** - Before you purchase an annuity you can choose your investment term. Fixed term annuities are generally available for fixed terms of between one and 50 years. The investor selects the term most appropriate to them.
- **The term of a lifetime annuity is the rest of the investor's life** - income payments continue until you die. It can be as short as one year, as long as 50 years or even for your lifetime. You can also select how often you get paid - monthly, quarterly, half-yearly or annually.
- **Inflation protection** - With some annuities, you can elect to index your payments so they keep pace with inflation or at a fixed rate of indexation.
- **Tax effectiveness** - When an annuity is bought with money rolled over within the superannuation system by a person aged 60 or over, the regular payments are tax free.
- **Access to your money** - If you would like to cancel your annuity, in most cases you will receive a return of your investment but you may receive back less than you invested originally and less than you would have received had you held the annuity for its agreed term.

Key features of Fixed Term Annuities

- You nominate the term of the investment and the payment frequency.
- You have certainty your income will not run out during the annuity term. The payments are guaranteed over this period.
- The flexibility to choose whether your income payments will remain level or be indexed each year to keep pace with increases in prices due to inflation.
- You can choose whether you would like to have a portion of your capital returned to you as a lump sum at the end of the term and the amount of this lump sum.
- As it is not market linked, you are protected from adverse movements in investment markets. Instead, you lock in the applicable interest rate at the time the investment is made.
- The income from your annuity may be paid directly to a beneficiary or your estate if you pass away before the end of the term.

Key features of Lifetime Annuities

- You may be able to elect for the annuity to continue to be paid to your spouse upon your death as the original annuitant.
- You have certainty your income will not run out during your lifetime. The payments are guaranteed.
- You may be able to elect to apply a ‘guaranteed period’. Depending on the particular annuity, this may mean the income will continue to be paid for a guaranteed minimum period of time, even if you pass away during the guaranteed period. Alternatively a lump sum amount may be payable.

- You can choose whether your income payments remain level or are indexed each year to keep pace with increases in prices due to inflation.
- As it is not market linked, you are protected from adverse movements in investment markets. Instead, you lock in the applicable interest rate at the time the investment is made.
- Part of the income you receive may be tax free.

How it works

An annuity is an investment that pays a series of regular guaranteed income payments for either a fixed period of time or for life. They may be purchased with superannuation funds or non-superannuation money.

If superannuation funds are used, income payments receive the same tax treatment as superannuation pensions.

If non superannuation monies are used, a tax free amount for each payment will be calculated, representing your return of capital.

How are Annuities assessed for social security purposes?

Both lifetime annuities and 100% capital return annuities with terms of six years and above receive favourable treatment under the asset and income tests for Age/DVA pensions and daily aged care fees.

The income of an annuity is assessed by the Department of Human Services/DVA's income test as follows:
- subject to deeming rates where the term is five years or less, or
- total income is reduced by a 'deductible amount' that reflects a return of the purchase price where the term is more than five years.

The amount you invest into an annuity is assessed under the Department of Human Services/DVA's assets test. If you choose to receive all of the capital at the end of the selected term, the assessed asset value does not change. If you choose to have some of the capital returned as part of the regular payments, the asset value is recalculated every six to 12 months and reduced by the amount of capital returned up to that time.

Complying annuities

Certain annuities receive favourable assessment under the assets test and are generally known as 'complying annuities'. Some of the key features of complying annuities include:

- the annuity is non-commutable meaning you are unable to make lump sum withdrawals
- the term established when the annuity was purchased met the requirements of the legislation
- limitation on the ability to have the annuity paid to a reversionary beneficiary.

If all the criteria in the legislation was satisfied, the exemption under the assets test would be:

- 100% if purchased prior to 20 September 2004, or
- 50% if purchased from 20 September 2004 but before 20 September 2007.

In limited situations, you may be able to commute a complying annuity but generally only to purchase another complying annuity. Care should be taken as the favourable assets test treatment may be lost if the new annuity does not have the appropriate characteristics.

If an annuity reverts is a beneficiary, it may be reassessed at that time against the criteria including the beneficiary's age. This may result in a loss of the favourable assets test treatment.

Risks and Consequences

- A lifetime annuity has nil residual capital value, meaning nothing is paid to your dependants or estate upon your death. The exceptions are if you have selected a reversionary annuitant or if a guaranteed income period has been selected and you pass away within this period. In this event, your beneficiaries or estate will only receive what would have been paid to you during the guaranteed period. Depending on how long you live, there could be an overall loss of capital.
- It is not investment linked so your capital will not grow and you cannot take advantage of favourable market movements.
- You are locked in to a specific rate of return for the rest of the term (or life). If interest rates rise, you are not able to take advantage of the higher potential return without incurring penalties.
- Once the annuity is established, the amount and frequency of the income payments cannot be altered.
- Your options are restricted if your circumstances change as generally speaking, you cannot withdraw a lump sum. Penalties may apply to any withdrawals.
- Annuities purchased with superannuation money are counted against the transfer balance cap. The general cap in 2018/19 is $1.6 million. Penalties apply if this cap is breached. The taxation of payments from these annuities may be impacted if the value of your annuity exceeds the transfer balance cap and you are unable to commute an amount to reduce the assessment against the transfer balance cap. The way in which an annuity is valued to determine the amount that will count towards the transfer balance cap will depend in part, on whether you purchased the annuity before or after 1 July 2017. These rules are complex.
- The income of an annuity is assessed by the Department of Human Services and Department of Veteran's Affairs income test as follows:
  - subject to deeming rates where the term is five years or less, or
  - total income is reduced by a 'deductible amount' where the term is more than five years (if your life expectancy is equal to or less than five years, the income assessment will be total income reduced by a 'deduction amount').
- The investment amount of an annuity is assessed under the Department of Human Services and Department of Veteran's Affairs assets test. If you choose to receive all of the capital at the end of the selected term, the assessed asset value does not change. If you choose to have some of the capital returned as part of the regular payments, the asset value is recalculated every six to 12 months and reduced by the amount of capital returned up to that time.
- In limited situations, some annuities are considered 'complying' and may receive favourable treatment under the assets test for Department of Human Services/Department of Veterans' Affairs. These complying annuities may have a 100% or 50% assets test exemption. Care should be taken as this treatment may be lost if able to commute to purchase a new complying annuity or upon payment to a reversionary beneficiary.

Version: 1.06

Investment Concepts – Costs and risks of derivatives

There are certain risks involved in investing and trading Derivatives. You should carefully consider these risks before proceeding with a Derivatives strategy. You should only invest in Derivatives if you understand the nature of the investment, your rights and obligations and the extent of your exposure to risk.

The general risks associated with using Derivatives include:

- **Issuer risk** – Each Derivative is a contract between the Derivative issuer and you. You are therefore exposed to the risk that the issuer will not perform its obligations as outlined in the PDS.
- **General market risks** – The risk that the value of the Derivative will decrease due to movements in domestic and international markets, investor sentiment, interest rates and exchange rates.
- **Limited life** – Derivatives have maturity dates and on expiry, they cease trading and can no longer be exercised. It is important that you select the most appropriate Derivative for your investment time horizon.
- **Leverage risk** – In addition to magnifying your gains, Derivatives can also magnify the percentage of your losses.
- **Currency risk** – If the Derivative is held in a foreign currency, you will be exposed to the risk of that currency fluctuating in value against the local currency.
- **Liquidity risk** – The risk that you may not be able to sell your Derivative investment for a reasonable price in the market.
- **Suspension from trading** – The Australian Stock Exchange (ASX) may suspend or remove a Derivative investment from trading. For example, if the issuer is unwilling, unable or fail to comply with the ASX Operating Rules.
- **Early termination or expiry** – A Derivative investment may terminate or lapse before the expiry date due to an extraordinary event occurring such as the suspension of trading in the Derivative, the de-listing of the underlying company or a compulsory takeover of the underlying securities.
- **National guarantee fund (NGF)** – The NGF provides compensation to investors in meeting valid claims arising from dealings with brokers and Licensees. Not all dealings are covered and you should check under which situations you may be able to claim for compensation as a result of a loss created by transacting in Derivatives on the secondary market.
- **Taxation considerations** – If a capital protection facility applies, the interest expense may not be fully tax-deductible. A registered tax agent will be able to assist in determining the tax deductibility for your circumstances.

Version: 1.06

Investment Concepts – Costs and Risks of Direct Property

Benefits

Owning a property directly (direct property), whether as a home or as an investment, can provide a number of benefits, including:

- Not having to pay rent on a property you live in as your own home.
- Receiving rental income from an investment property.
- The capital value of the property may increase over time.

Historically, in major cities at least, the capital appreciation (or increase in the value) of property over the longer term has generally kept up with or exceeded the rate of inflation. This is not certain and depends on the location and physical condition of the property, as well as the market's supply and demand.

Direct property assets include the following:

- Residential: house, townhouse, unit or apartment
- Commercial: retail or office
- Industrial: workshop or factory
- Rural: farm

You may purchase an established property, purchase land and build (privately or a 'house and land package' through a developer) or purchase a property 'off-the-plan' which means before construction has even commenced.

Considerations

Any decision to purchase, retain, or sell a direct property asset should be carefully considered as there are specific issues, costs and risks associated with this type of asset. Below is a summary of some of the issues, followed by more details on the main costs and risks, relating to direct property assets.

- Large amounts of capital are required and you may need to borrow money.
- There are significant upfront, ongoing and sale costs.
- Direct property assets can be illiquid, making it difficult to access your capital in the future.
- Owning direct property investments may reduce the diversification of your portfolio.

Purchasing direct property

- **Purchase costs**: There are many upfront costs associated with direct property such as:
  - Time and cost of searching for a suitable property
  - Pest and building reports
  - Legal and conveyancing fees
  - Loan establishment costs
  - Stamp duty
- **Location**: The character and location of a property can have a big influence (positive or negative) on the current and future desirability of the property to purchasers and/or tenants. It is important to consider potential changes in the suburb that may affect future prices like planned developments or population changes.
- **Timeframe**: Direct property should be viewed as a long-term investment. This is due to the potential short-term volatility that the direct property market (and/or specific locations) may

experience. It may also take time to recover the significant initial and ongoing costs related to purchasing a direct property asset.

- **Opportunity cost**: When purchasing direct property, you give up the opportunity to use that money to invest into other assets which may be more appropriate to helping you achieve your financial goals and objectives. You need to consider if a direct property investment will provide you with the best net-return after taking into account all estimated costs, risks and returns.

Owning direct property

- **Risk vs return**: The return on direct property is impacted by various risks which affect income and growth of the property. The rental income you receive will depend on the supply and demand for the type and condition of the property in its location. The capital growth or loss on a property also depends on the location and condition of the property and its desirability for potential purchasers. Other influences also include movement of interest rates that may affect a buyer's affordability.
- **Lack of diversification**: If you invest only in direct property assets, you will have all of your wealth concentrated in the property market. Poor diversification increases your risk since no one type of asset class provides the best performance over all time periods.
- **Lack of liquidity**: Direct property is an inflexible asset. You can't sell off a bedroom if you urgently need access to some cash. If you decide to sell a property, there is usually a lengthy time-delay between making the decision to sell and receiving the sale proceeds.
- **Tenants**: There may be periods of time where you don't have a tenant and will have to cover all costs yourself. Tenants may also damage the property, and may pay the rent late or not at all.
- **Ongoing costs**: There are many ongoing costs associated with direct property, including:
    - Council rates, water rates, insurance, land tax, agent fees and body corporate fees.
    - Loan interest, repayments and fees.
    - Maintenance and repair of existing structures and fittings (both internal and external).
- **Improvements**: Often capital improvements to a property are necessary (for example, the replacement of an oven or air conditioner). Such capital expenses can be costly and unplanned. Other costs may include building or renovation work.
- **Legislative risk**: There is a risk that the capital gains and social security concessions related to certain property assets may be made less favourable.
- **International property**: Where international property is being held or considered, it is important to be aware of any applicable international tax laws, residency issues and currency risks before you proceed with any purchase or sale.

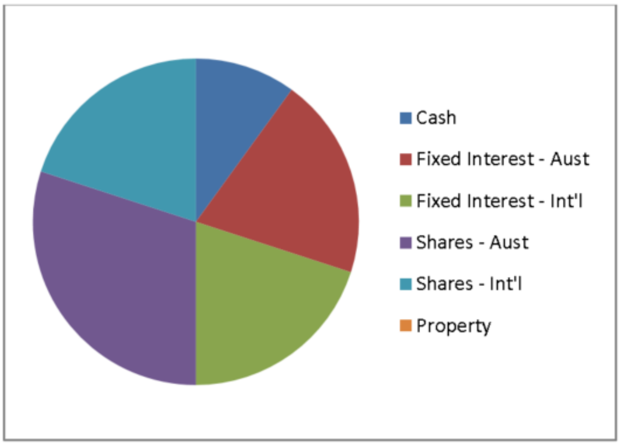
Selling direct property

- **Sale costs**: There are many sale costs associated with direct property. These may include.
    - Time needed to select an agent to manage the sale
    - Time spent preparing and vacating the property for inspections
    - Legal and conveyancing fees
    - Advertising costs
    - Agent fees
- **Capital gains tax (CGT)**: Generally, unless the property has always been your home, you may have to pay CGT on some or all of any gain in the value of the property. This could reduce the net sale proceeds available to you once the property is sold.
- **Sale date uncertainty**: Unlike some other asset types, it may take months or even years to sell a direct property. This could be due to the property's location and desirability (or lack of), the asking price, the length of the settlement period and/or the state of the property market. Generally, it takes at least two months from the time you decide to sell until when you receive the sale proceeds.

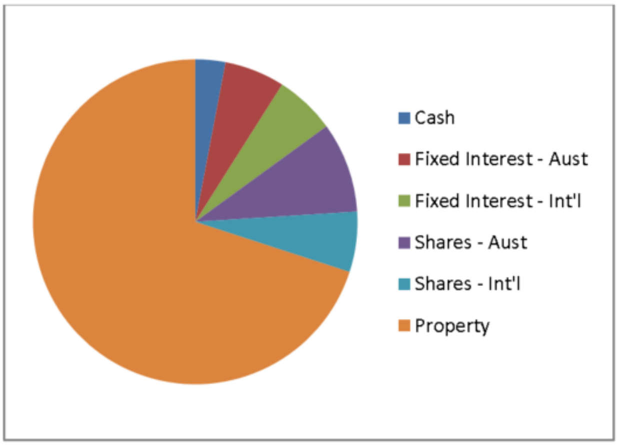
Investment risk profile and asset allocation

- Generally, once your investment risk profile is confirmed with your adviser, it will be used to determine how your portfolio will be invested across the various asset classes. This is known as your target asset allocation. Unless otherwise noted, your investments other than direct property will be invested in line with this target asset allocation.
- When direct property assets are included as part of your overall investment portfolio, this may have a significant impact on your overall asset allocation through reduced diversification. It will increase your exposure to growth assets relative to defensive assets. It will also reduce your exposure to all other asset classes relative to direct property. For example, a client with a 'moderate' risk profile (50% Defensive / 50% Growth) who owns a direct property valued at $700K and superannuation and other investments valued at $300k will have the following asset allocation (excluding/including direct property).

Asset Allocation (excluding Direct Property)



Asset Allocation (including Direct Property)



Other property-related professionals & service providers

There are a range of other professionals and service providers that can assist you with different aspects of direct property purchase, ongoing ownership and sale. These are shown in the table below including a description of what they do and where you can go to obtain more information.

Who	What	More information
Valuers / Quantity Surveyor	Valuers can provide comprehensive reports on the current market value of a property. Quantity Surveyors provide depreciation schedules to estimate costs of depreciable items in a property. • Site inspections • Valuation reports • Depreciation schedules Usually charge an agreed fee.	The Australian Property Institute www.api.org,au/about-certified-practising-valuers Australian Institute of Quantity Surveyors www.aiqs.com.au
Real Estate Agent	Specialise in selling property usually for a commission but sometimes for an agreed fee. • Trends in local property market • Market appraisals • Negotiating selling of properties	Real Estate Institute of Australia www.reia.asn.au
Buyers Agent	Assist property purchasers/investors with property selection and negotiation for a fee calculated as a percentage of the	Real Estate Buyers Agents Association of Australia

Who	What	More information
	purchase price or an agreed fee. • Selection of investment property • Negotiation • Purchase	www.rebaa.com.au
Pest / Property Inspectors	Assesses both the interior and exterior condition of a property for an agreed fee. • Pest reports • Building reports	Search for Pest and/or Property Inspections on your state or territory website (eg. NSW Fair Trading)
Conveyancer / Solicitor	Provide legal advice and services related to property investments usually for an agreed fee. • Contract review • Local council requirements • Stamp duty and land tax • Wills & Estates	Australian Institute of Conveyancers www.aicnational.com.au Look at your state or territory Solicitors – search for 'Law Society' in your state or territory
Property Investment Adviser	Work with property investors to build personalised long term property investment plans for an agreed fee or sales commission. • Risks & benefits • Goals & strategies	Property Investment Professionals of Australia www.pipa.asn.au
Property manager	Look after the management of your rental properties usually for a fee calculated as a percentage of the rental income. • Managing tenants • Conduct regular inspections • Maintenance requests	Real Estate Institute of Australia www.reia.asn.au
Builder / Developer	Specialises in building and developing new properties and makes profits by selling the properties for more than the costs of construction, marketing and sales. • Apartment complexes • House and land estates • Off the plan	Ensure you research the builder(s) and developer(s) you are intending to purchase a new development from Search state of territory website (eg. NSW Fair Trading)
Research Providers / Project Marketers	Market new properties to prospective buyers and usually charge a sales commission. • Information • Marketing • Sales	Ensure you understand who these businesses are representing and how they are getting paid

The Australian Securities and Investment Commission (ASIC) Moneysmart website includes some very useful information to help people make the most of their money – including a specific section on property investment (www.moneysmart.gov.au/investing/property).

Version: 1.06

Gearing – Costs and risks of gearing into superannuation

It's not normally beneficial to borrow to invest in superannuation, as superannuation is not an income-producing asset. Even though it effectively increases your retirement investment, the income it produces is assessable income to the fund trustee, not to you personally. This means that you can't claim a tax deduction for any borrowing expenses associated with borrowing to make a contribution.

However, for some individuals, there may be a benefit in short-term borrowing to fund a one-off contribution, if the alternative is that their future contributions will be constrained by the non-concessional cap and/or eligibility rules.

Although gearing can deliver benefits, the risks associated with gearing may mean it is unsuitable for you. It is essential to carefully consider these risks before proceeding with a gearing strategy.

The specific risks associated with borrowing to contribute into superannuation (gearing) include:

- **Reduction in capital value**. Although there are potential wealth creation benefits to be gained from gearing, these benefits are achieved at the expense of higher risk.
  It is important to note that although gearing has the potential to increase capital gains in a rising market, it can also compound a capital loss in a falling market. The following table provides an example.

Starting Values	Geared	Non-Geared
Investor Equity	\$40,000	\$40,000
Amount borrowed	\$60,000	\$0
Total Investment	\$100,000	\$40,000
Market Rises 10%		
Value of Portfolio	\$110,000	\$44,000
Loan outstanding	-\$60,000	\$0
Investor's Equity	\$50,000	\$44,000
***GAIN* in Investor's Equity**	**25%**	**10%**
Market Falls 10%		
Value of Portfolio	\$90,000	\$36,000
Loan outstanding	-\$60,000	\$0
Investor's Equity	\$30,000	\$36,000
***LOSS* in Investor's Equity**	**-25%**	**-10%**

- **Interest mismatch**. The success of the strategy depends on total investment returns in your superannuation account being greater than the net borrowing costs (which you will meet outside superannuation). There is a risk that investment earnings are lower than interest costs. You should consider this carefully before borrowing to contribute into superannuation.
- **Non-deductibility of interest costs**. As the investment is held by the superannuation fund trustee, it does not provide you with assessable income. This means that the interest costs on the loan are non-deductible to you.
- **Loss of immediate access to your funds**. As your cash flow will be directed to meet interest repayments on the loan, this may affect the attainment of some of your goals and objectives.

- **Capital gains tax (CGT)**. CGT may be payable when you sell assets used to secure the loan. At that time you should consult a tax agent in regard to this. You should consider the potential impact of this prior to proceeding with this recommendation.
- **Liquidity risk**. The nature of the asset used to secure the loan may be illiquid, meaning that it takes a longer time to effect the sale in order to repay the loan.
- **Market timing risk**. The assets used to secure the loan may need to be sold at a time when the sale price is at a low-point.
- **Fluctuations in interest rates**. If interest rates on borrowed funds increase, then you will incur additional costs that will need to be covered. This may affect the attainment of some of your goals and objectives.
- **Shortened time frame.** You are likely to be advised to limit your borrowing for super contributions to a maximum of 5 years and that you should satisfy a 'condition of release' within 5 years, such as retirement after reaching your preservation age or attaining age 65. There must also be a reasonable expectation that asset proceeds or other funds will become available to repay the borrowing within 5 years for this strategy to be effective.
- **Insurance**. It is strongly recommended that insurance is acquired by all parties involved in the gearing strategy as death, disablement or critical illness may require the investments to be liquidated, leading to potential portfolio losses.
- **Investment restrictions**. If at any time there is a reasonable expectation that you will need to access your superannuation funds to repay the debt in whole or part, consideration should be given to acquiring cash and short-dated fixed interest investments offered by the fund trustee.
- **Defaulting on your loan**. If you default on your loan (i.e. do not pay your loan or interest repayments when they are due), the lender may compel you to make payments, impose a penalty for late payment, or ask for the loan to be repaid in full immediately. The lender may even sell assets that are being held as security for the loan. The preserved nature of superannuation means that some individuals are not able to access their benefits to repay the loan unless a 'condition of release' is met.
- **Loan costs**. An application fee may apply when you apply for the loan, the details of which can be found in the Loan Application. Other bank fees may include a monthly service fee and, if applicable a facility fee. In addition, government fees may also apply. These may include stamp duty on the loan and State Government charges which differs from state to state.
- **Ending your loan**. If you decide to end or terminate the loan facility, it may be necessary to sell the investments or security held by the lender in order to do so. This means you could be selling investments at a lower price than what you paid for them, or too early for the gearing strategy to have provided significant benefits.

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Debt Management – Costs and risks of reverse mortgages

The risks associated with a reverse mortgage mean it is unsuitable for some home owners. It is essential to carefully consider these risks and to obtain legal advice and estate planning advice before proceeding with a reverse mortgage strategy.

With access to a large amount of credit, some people may have difficulty budgeting over the long term. The need to budget is greatest when the family home is your biggest financial asset.

The specific risks associated with using a reverse mortgage include:

- **Timing of repayment and sale** – Generally, a reverse mortgage has no fixed repayment date. The amount owing (including interest charged) must be fully repaid when you sell your home, move out, or die. This means that your home may have to be sold urgently at short notice, at an inconvenient time, or at a time when house prices are at a low point.
- **Capitalisation of interest** – A reverse mortgage compounds the interest charged, as generally no ongoing repayments are made to the loan. This means the balance of your loan will continue to increase as interest builds up, even if you do not borrow additional funds. It also means that over time interest will accrue on the interest that you have already been charged.
- **Interest rates are higher** – Interest rates are generally higher than average home loans.
- **Variable interest rate** – A variable interest rate means that your interest rate may rise, increasing your overall interest costs, and potentially reduce the net value of your home.
- **Fixed interest rate** – Fixing the interest rate gives you more certainty of interest costs. However, there is a chance that variable interest rates may fall to a point lower than the rate you have your loan fixed to.
- **Exit penalties and other fees** – Reverse mortgages usually charge an exit penalty if the loan is paid out early, particularly those where the interest rate has been fixed. Reverse mortgages have fees that are comparable with normal mortgages. Fees may be quite high relative to the size of the loan particularly if the loan size is small.
- **Terms and conditions** – There may be terms and conditions in the reverse mortgage contract that are unacceptable to you. For instance particular circumstances triggering the immediate repayment of the loan, the loss of key rights, the loss of a ‘no negative equity guarantee’, and/or possible eviction.
- **Lump sum drawdown** – A lump sum drawdown means you receive a single amount of money by drawing once from a reverse mortgage. If the lump sum is large, high interest costs will apply immediately.
- **Regular drawdowns** – Regular drawdowns involve receiving many ongoing amounts from your reverse mortgage, usually of the same size over a period of time. Some lenders will charge additional fees for regular drawdowns. Regular drawdowns will continue to increase the size of your loan until they cease being made.
- **Reduction in emergency funds** – A reverse mortgage will reduce the amount of capital available to you in an emergency. This means that in the future, you may not be able to access sufficient funds to meet any emergencies for health or other purposes, because of the reduced equity in your home.
- **Lender’s rights** – As a result of a reverse mortgage, the lender (generally a bank) will have an interest in your home. This means that you may need to consult with the lender when making decisions regarding your land or home.
- **Maintaining or renovating your home** – The lender may require you to maintain your home to a higher standard than you think necessary, which will increase the time and cost of maintenance.

The lender may also place restrictions on the scale and type of renovations you may wish to complete on your home.

- **Reduction in the value of your estate** – A reverse mortgage will reduce the net value of your home. This means that in the event of your death, the value of your estate will be less than if you did not use a reverse mortgage. You may wish to discuss this aspect with the beneficiaries of your will, or obtain estate planning advice. You should also review your Will and any other estate planning arrangements.
- **Negative equity** – With some reverse mortgage products, it may be possible for the loan to increase to a point where it is worth more than the value of your home and land. This means that there would still be a debt owing after selling your home and using the entire sale proceeds to pay off the reverse mortgage. This carries extra risk. You should ensure that your reverse mortgage product has a ‘no negative equity guarantee’.
- **Residents who are non-borrowers** – If you are a sole owner and someone lives with you, that person may not be able to stay when you die.
- **Moving to an aged care facility** – If or when you decide to leave your home and move into an aged care facility, the net value of your home will be less after paying off the reverse mortgage. The reduced amount of funds may limit your financial ability to enter an aged care facility of your choice. Also, if you have to repay the outstanding debt when you move in to care and the home has to be sold, this could have a negative impact on your social security entitlements and aged care fees.
- **Social security** – Depending on how you use the funds from your reverse mortgage, your social security benefit may be reduced. This may be as a result of an increase to your assessable assets (such as funds in a bank account), or an increase to your income (due to the deeming of financial investments or the payments received from a pension you may have purchased).
- **Reduced ability to support other loans** – You may want to assist a family member or friend by providing your home as security for their loan. Your ability to provide this support may be reduced, because the equity in your home will be reduced.
- **Property expenses** – You will still be required to pay for property expenses such as council rates. You will also be required to maintain appropriate insurance cover for your home.

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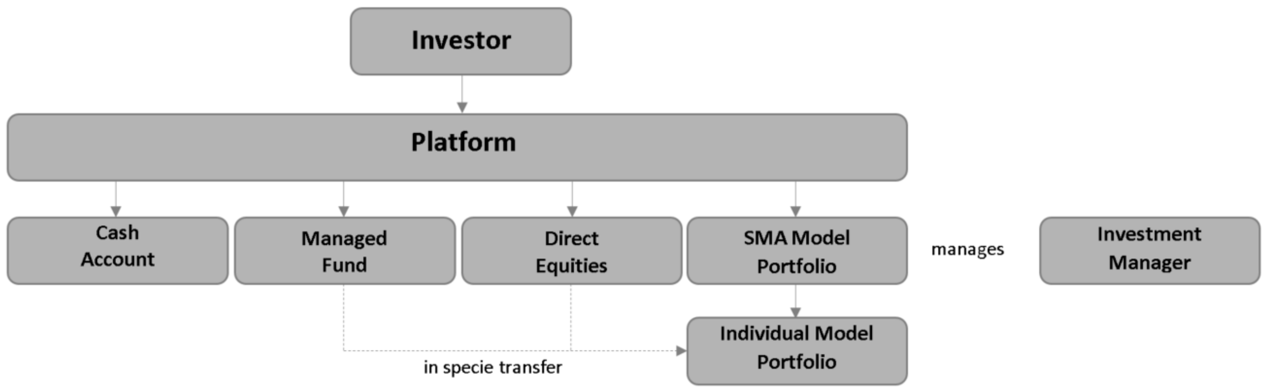
Investment Concepts – Separately Managed Account (SMA)

A Separately Managed Account (SMA) provides investors beneficial interest in a professionally constructed and managed portfolio of investments that may consist of Australian shares, listed securities (such as shares, ETFs, ETCs, LICs, etc.), managed funds and cash.



How it works

An SMA is a registered managed investment scheme that allows you to access a number of professionally constructed and managed investment portfolios (model portfolios) comprising Australian listed investments, managed funds, and cash in which beneficial ownership is retained by you (or the trustee in the case of a superannuation investment).

An SMA can be accessed via an eligible platform (for both investment and superannuation) or in some cases directly from the provider.

Benefits

- **Individual accounts** - Unlike a unitised managed fund in which investors collectively have an interest in the pool of fund assets, the SMA investor has absolute beneficial ownership in the investment options held in their account.
- **Transparency** - You can view the assets that you hold within your chosen Model Portfolio through your platform reports and facilities.
- **Portability** - You can transfer Australian securities and units in managed funds that are held by (or for) you into the Wrap platform before transfer into the SMA and still retain the beneficial interest in those assets. You can also transfer your securities and units in managed funds between your Model Portfolios within the SMA.
- **No inherited capital gains** - When you transfer assets into your account, or assets are acquired by us and held as part of your account, an individual cost base is established in relation to that Model Portfolio. For securities this means there are no tax consequences for you as a result of other investors' transactions.

- **Professional investment management** - The SMA provides you with access to leading experienced professional investment managers who ensure each model portfolio is continually monitored and managed
- **Consolidated reporting** - SMAs are typically integrated with the technology systems of a platform through which you access the SMA, meaning you will be able to have a comprehensive view of your Model Portfolio. This means you can:
  - view the breakdown of investments in your Model Portfolio
  - keep track of your investments, and transact between an SMA and other investments on your platform easily

Risks and Consequences

- The capital value of SMAs may fluctuate, particularly in the short-term.
- Capital Gains Tax may be payable on any growth in the value of your investments when you eventually redeem or sell them.
- Income distributions are not guaranteed and may fluctuate over time.
- Re-invested income will still form part of assessable income for tax purposes.
- There are costs associated with SMAs, you should refer to the PDS for further information.
- Loss of immediate access to your funds.
- SMAs can include exposure to growth assets, such as shares, so are often suitable for investors who seek long-term capital growth. In such cases, if you withdraw within a shorter timeframe, there is an increased risk of loss.

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Investment Concepts – Managed funds

Managed funds allow investors to pool their money with an investment manager who has extensive research facilities and experience. Depending on the assets invested, they may provide a combination of income (including realised capital gains) and the potential for capital growth over the medium to long term.

Benefits

Some of the advantages of managed fund investments include:

- **Diversification** - The large pool of funds available enables fund managers to diversify the spread of investments across all asset classes as well as providing access to investments which may not be readily available to individual investors, such as large retail property complexes and international shares.
- **Professional management and expertise** - Fund managers have the expertise to monitor and research investment opportunities and apply their investment experience in managing investment portfolios across all asset classes.
- **Economies of scale** - Investors in managed funds can access economies of scale in areas such as volume discounts on brokerage and other fees.
- **Liquidity** - Investors in managed funds can usually access their funds within 5-30 days (excluding superannuation investments), and are usually able to access a part of their funds without needing to cash in the whole investment.
- **Regular reporting and information** - Managed funds can take care of the administrative hassles and expenses which would normally accompany direct ownership of investments. Fund managers also provide regular information to investors regarding investment performance and year-end tax summaries, and
- **Tax advantages** - Income distributions may be tax advantaged through imputation credits for investments with underlying Australian share assets.

How it works

Managed funds can be purchased in individual names or within your superannuation fund. The investment manager may be called a 'fund manager' or 'responsible entity'. An investment manager then buys and sells shares or other assets on your behalf. You are usually paid income or 'distributions' periodically. The value of your investment will rise or fall with the value of the underlying assets. Depending on the assets invested, they may provide a combination of income (including realised capital gains) and the potential for capital growth over the medium to long term. Generally, income distributions can be either reinvested or paid to a nominated bank account.

Risks and Consequences

- The capital value of managed funds may fluctuate, particularly in the short-term.
- Capital Gains Tax may be payable on any growth in the value of your investments when you eventually redeem or sell them.
- Income distributions are not guaranteed and may fluctuate over time.
- Re-invested income will still form part of assessable income for tax purposes.
- Internal management fees are charged to invest into managed funds.
- Loss of immediate access to your funds.

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Investment Concepts – Asset Allocation

Asset allocation is the proportion of your portfolio spread across a number of asset classes, markets and regions. The aim is to achieve a return for an acceptable level of risk by combining asset classes in a calculated way. This also helps smooth the ups and downs of each asset class returns. There are several approaches to asset allocation in common use. They all have their advantages and disadvantages so it is important to understand the basic differences.

Strategic asset allocation (SAA) is the process of setting and maintaining the long term structure of the portfolio. It reflects expectations about assets over the long term and is designed to reflect your long term objectives and appetite for risk.

Tactical asset allocation (TAA) refers to short term changes to asset allocation to take advantage of short-term views of the markets.

Dynamic asset allocation (DAA) is in between strategic and tactical asset allocation. It's an active approach to altering a portfolio's asset allocation over the medium term. DAA recognises markets will constantly move around from what is considered 'fair value'. It provides a level of flexibility to alter the asset mix of the portfolio to take opportunities as they arise or to help preserve wealth if markets fall.

Below is a brief description of the main types of defensive and growth asset classes including distinct features such as expected returns and volatility.

Defensive asset classes

Defensive assets have a lower potential rate of return over the long-term but are also generally less volatile and have less potential to lose value than growth assets. Cash and fixed interest investments are defensive assets.

Cash

Cash and short-term securities include deposits, bank bills and other similar assets whose price is linked to short-term interest rates.

Risks and Consequences

- Cash and short-term securities are generally the least volatile asset class and tend to offer the lowest potential return over the long-term.
- The return is typically all income which is considered assessable for tax purposes.

Australian and international fixed interest

Fixed interest investments such as bonds pay a fixed dollar income in the form of a coupon payment for an agreed period of time.
There are many forms of bonds including investment grade corporate bonds, high-yield corporate bonds, emerging market bonds, nominal government bonds and inflation linked bonds.
There is one important difference with international bond funds relative to Australian funds. As the funds hold fixed interest investments in foreign currencies, exchange rate movements impact on both the capital value and the income return from the investment.

Risks and Consequences

- If you sell a fixed interest investment prior to maturity and interest rates fall during the time you hold the investment, you could enjoy a gain on the original investment.
- If interest rates fall, the capital value of a fixed interest investment is likely to rise and the income return should gradually decrease to reflect the lower interest rates available in the market.
- If you sell a fixed interest investment prior to maturity and interest rates rise during the time you hold the investment, you will receive a lower value than you would have received upon maturity, therefore incurring a loss.
- If interest rates rise, the capital value of a fixed interest investment is likely to drop and the income return should gradually increase to reflect the higher interest rates available in the market.
- If you decide to reinvest in a fixed interest investment, your new investment may provide a higher or lower level of income than your original investment, given interest rates may be higher or lower at maturity than at the time you made your investment.
- Generally, the longer the bond has to maturity the more sensitive its price will be to changes in market interest rates. Therefore it is generally more appropriate for long-term investors who can tolerate short term volatility.
- The different maturity and forms of bonds may perform differently in varying economic and market conditions and they can rise and fall in value. Concerns about defaults on loans may result in a loss on your investment.
- As bonds can fluctuate, they are more volatile and offer a higher potential rate of return than cash and short-term securities but they are also generally less volatile and offer a lower potential rate of return over the long-term than growth assets.

Growth asset classes

Growth assets have the potential to earn a higher rate of return over the long-term but are also generally more volatile than defensive assets.

Australian shares

Australian shares represent a part ownership in an Australian company. Australian shares can provide the opportunity for capital growth, income and tax benefits through the dividend imputation system. The dividend imputation system generally allows an investor to receive a tax credit for any tax the company has already paid on the income distributed to them.
Although Australian shares can be expected to outperform many other investment classes over the long-term, due to sharemarket volatility, share investments are likely to fluctuate in value across all time periods, particularly in the short to medium term.

Risks and Consequences

- Investing in a single share or a very small number of individual shares is more likely to expose you to greater fluctuation in the value of your investment than investing across a range of shares. It is possible to further reduce fluctuations by investing across different sectors in the economy.
- Small companies are generally considered higher risk investments.
- Share prices can rise and fall suddenly in response to many factors including company profits, market sentiment, industry issues and economic trends. For this reason Australian shares should be viewed as a long-term (5-year plus) investment as they can experience significant levels of short to medium term volatility.

International shares

International shares represent a part ownership in an international company.
Investing in international shares enables you to diversify your sharemarket exposure not only across a broader range of countries but also into companies and industries that do not exist in the Australian share market.

Risks and Consequences

- International shares have similar characteristics to Australian shares with two important differences:
  - the income return from international shares generally does not provide a dividend imputation tax benefit, and
  - both the capital value and the income return of the investment may be influenced by currency exchange rates.
- In the short-term, adverse market conditions may result in a significant decline in the value of International shares and it may take some time for the value of the investment to recover. For this reason, International shares should be viewed as a long-term (5-year plus) investment.

Australian property securities

Investing in property securities as an asset class is different to buying a house or an investment property. These are referred to as Australian Real Estate Investment Trusts (AREITs).
AREITs are an investment listed on the Australian stock exchange that provides exposure to a portfolio of direct property investments. AREITs own a range of properties such as residential, commercial, retail and industrial. Some invest across all of these property types and others focus on specific sectors.
Some managed investment funds invest in a portfolio of AREITs. The advantage of this is investors access the benefits of investing in property (for example, capital growth and income) whilst their investment remains liquid. Also, managed property securities funds spread investors' risk as they provide a more diversified property portfolio.
Property securities primarily earn income from rent. Historically, this type of investment provides a reasonably regular income relative to other growth assets. Over the long-term, they should appreciate in value and offer a portfolio some protection against the impact of inflation.

Risks and Consequences

- In the short to medium-term, the value of AREITs is expected to increase or decrease in value in accordance with movements in both the AREIT sector and the sharemarket generally. As a result, property securities are more volatile than defensive assets and should be viewed as a long-term (5-year plus) investment.
- Property securities tend to generate higher returns in income than capital growth.

International property securities

International property securities are investments listed on international stock exchanges and provide exposure to a portfolio of direct property investments. These are referred to as Global Real Estate Investment Trusts (GREITs). GREITs own a range of properties such as residential, commercial, retail and industrial. Some invest across all of these property types and others focus on specific areas.
Investing in GREITs enables you to diversify your portfolio, not only across a broader range of countries but also property assets and sectors that do not exist in the Australian market.
International property securities primarily earn income from rent. Property securities generally produce higher levels of income than other listed equities.

Risks and Consequences

- Both the capital value and the income return of the investment may be influenced by currency exchange rates.
- In the short to medium-term, the value of listed property trusts is expected to increase or decrease in value in accordance with movements in both the listed property trust sector and the sharemarket generally. As a result, property securities are more volatile than defensive assets and should be viewed as a long-term (5-year plus) investment.
- Property securities tend to generate higher returns in income than capital growth.

Direct property

Buying a residential or commercial property to rent out is a way of investing directly in property. Property investors have personal control and management over their investment. Capital appreciation over the longer term is likely to keep pace with or exceed the rate of inflation, depending on the location and physical condition of the property. Tax deductible expenses may include depreciation, maintenance, insurance and financing costs. Furthermore, the equity in a property may be used to leverage other investments.

Risks and Consequences

- Large amounts of capital are required to purchase a direct property.
- There are significant establishment costs and ongoing costs associated with maintenance of the property.
- Direct property assets can be illiquid, resulting in the inability to draw down a portion of your capital in the future.
- You risk being heavily reliant on the income stream from a single investment sector.
- You risk losing income whilst the property is untenanted.
- As a significant amount of capital is required to purchase a direct property, your portfolio may lack diversification.

Alternative assets

Alternative assets cover a wide range of investments that are not considered traditional assets like those already described. Some examples include hedge funds, infrastructure and gold.

These types of investments are generally included in portfolios to increase diversification and provide returns that aren't strongly linked with the performance of traditional assets.

Risks and Consequences

- To access some alternative investments you generally need to do so through a managed fund.
- As most alternative investments aren't listed on an exchange, determining their value for a fund's unit price can be difficult and may involve a considerable time lag.
- Some alternatives such as hedge funds involve greater complexity and therefore may be more difficult to understand.
- Some alternatives are illiquid which may make them difficult to buy or sell when you want to.
- Alternatives may be included in a portfolio for their growth or defensive characteristics.
- Hedge funds may use a range of uncommon investment management techniques to achieve objectives and may use leverage, short-selling and derivatives extensively.
- Alternative fund managers may charge relatively higher fees.

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Tax – Taxation

Income tax

The main tax you'll pay is income tax which is calculated on income you receive such as salary and wages, investment income and business income. Generally, you pay income tax during the year as you earn it. For example, if you're an employee your employer will deduct tax from your wages and pay it to the Australian Tax Office (ATO). This is called Pay As You Go (PAYG) Withholding.

If you earn income that has not had tax withheld by the payer - for example, if you're paid as a contractor or you receive rent or interest income - you may need to make payments during the year to the ATO. These payments are called PAYG instalments.

How much income tax will you pay?

The amount of income tax and the tax rate you pay depends on how much you earn and whether you're an Australian resident for tax purposes. The more you earn, the higher your rate of tax. If you're an Australian tax resident, some of the income you earn is tax-free. If you're a non-resident for tax purposes, generally only your Australian sourced income will be subject to Australian tax.

You should seek tax advice from a registered tax agent to confirm how much tax you need to pay.

Income you must declare

You pay income tax on assessable income you receive such as salary and wages, certain Department of Human Services/Veterans' Affairs payments, investment income from rent, bank interest or dividends and capital gains from selling assets such as shares or property.

Deductions and offsets you can claim

You can reduce the amount of tax you pay with deductions such as some work-related expenses, donations, rental property expenses and interest on loans used to purchase income producing investments. You may also be eligible for tax offsets that reduce the amount of tax you pay. You claim deductions and offsets when you complete your annual income tax return.

Tax effective investments

An investment is 'tax-effective' if you pay less tax than you would on another investment with the same return and risk. While lower tax can help your savings grow faster, you should not invest based on tax benefits alone. A worthwhile strategy needs to be a sound investment first. Any tax benefit should be secondary. You should also be aware severe penalties can apply under taxation law where the dominant purpose for entering into an arrangement is to obtain a tax benefit.

A good way to understand how tax affects you is to know what 'marginal tax bracket' you're in for your ordinary income. This means if you earn an extra dollar, you'll know how much extra tax you'll pay.
If you can invest in a way that means you pay less tax on your investment returns than your marginal tax rate, then you're ahead. For example, superannuation is generally considered to be tax-effective as the tax rate is 15% on investment earnings. This is generally lower than most individuals' marginal tax rates.

Shares and property

Income you receive from investing in shares and property - dividends or rent - will generally be taxed at your marginal tax rate. 'Franked' dividends are dividends paid by an Australian company out of profits it has already paid tax on. You'll generally be entitled to a credit for the 30% company tax already paid if the dividend is 'fully franked'. This credit is called an 'imputation credit' or 'franking credit'. This means a $7 franked dividend is effectively worth the same as a $10 unfranked dividend. As you pay comparatively less tax on a franked dividend than with an unfranked dividend, shares that pay fully franked dividends can be 'tax effective' investments.

A capital gain may arise from the disposal of your investment. A capital gain is the profit you make when you dispose an investment for more than what you paid for it and will form part of your assessable income. Please see the 'Managing gains and losses' section for details. You should be aware you don't need to sell the asset to realise a capital gain. If you transfer your asset or simply give up a right to something, you may be considered to have disposed of an asset and therefore may have to pay capital gains tax (CGT).

Managing gains and losses

When you make a profit from selling your investments from the increase in its value, you may have to pay CGT. A capital gain is added to your assessable income in the year you sell the investment and taxed at your marginal rate. If you hold the investment for more than one year, you're only taxed on half the capital gain (this is called the CGT discount). So if your marginal tax rate is 37%, your capital gains are effectively only taxed at 18.5% (not including Medicare levy). Special rules apply to non-residents which may result in no/limited CGT discount being applied.

For superannuation funds, if an investment is held for more than one year the fund receives a reduction of 33.3% of the nominal gain, instead of the 50% reduction received by individuals.

Keep a record of any capital losses you make as they may be used to offset capital gains. Capital losses that aren't used against gains in the current year can be carried forward for use in later years.

Superannuation

The Government gives incentives through the tax system to encourage people to save for retirement including:

- investment earnings being taxed at a maximum of 15% (10% for capital gains if the assets were held by the fund for more than one year)
- superannuation contributions made by salary sacrifice (up to the contribution caps) to reduce your income tax
- claiming tax deductions for superannuation contributions (up to certain limits), if eligible
- paying no tax on the money they take out of superannuation for people aged 60 or over (from taxed superannuation funds), and
- investment earnings being tax-free when you start a superannuation pension.

Fringe benefits tax

What is a fringe benefit?

A fringe benefit is generally a non-cash benefit received by an employee (or an associate of the employee) as a result of their employment. This may include the use or ownership of something, enjoyment of a privilege or use of a service. While fringe benefits do not form part of your assessable income, the 'grossed-up' value of fringe benefits may be included in a broader definition of 'income' when determining your eligibility for certain Government benefits and concessions or liability for levies.

Reportable fringe benefits

A reportable fringe benefit is simply the 'grossed-up' taxable value of the fringe benefit provided and is the amount shown on the employee's payment summary. 'Grossing-up' involves applying a specific formula to the value of the fringe benefit received.

Your employer is required to include such reportable fringe benefits amounts on your payment summary. Examples where reportable fringe benefits are added to your other income are for the purpose of determining:

- Medicare levy surcharge
- child support payments
- Higher Education Loan Program (HELP) repayments, or
- Government co-contribution.

Adjusted fringe benefits are effectively reportable fringe benefits 'grossed-down' for the effect of the fringe benefits tax. Examples where adjusted fringe benefits are added to your other income are for the purpose of determining:

- Family Tax Benefit
- Child Care Subsidy, or
- the Parental Income Test for Youth Allowance

Fringe benefits tax

Fringe benefits tax is payable by employers and is based on the value of fringe benefits provided to employees or their associates. As fringe benefits tax is paid by the employer, the actual fringe benefit provided to the employee is generally not taxable in the hands of the employee.
Generally, employers may place restrictions on the amount and type of fringe benefits received by employees and this may involve adjusting the employee's total remuneration package to take into account any potential fringe benefits tax that may be payable by the employer.

Taxation of Employee Share Schemes (ESS)

Special tax treatment applies to shares, stapled securities and rights (including options) you acquire at a 'discount' under an employee share scheme (these are referred to as your 'ESS interests'). 'Discount' broadly means you either did not pay anything for the interest or what you paid was less than market value. This 'discount' on your ESS interest is subject to tax under the ESS tax rules. Under these rules, most ESS interests are subject to tax 'up front' (that is, at grant) rather than at vest. Some ESS interests such as those that carry 'real risk of forfeiture', certain salary packaging arrangements and certain pre 1 July 2009 interests may be instead taxed on a deferred basis however to be eligible, the scheme must meet very strict criteria.

The tax treatment and calculation of your taxable ESS discount is determined by reference to the particular scheme you participate in and is not something you can choose. Your employer will advise you of the type of scheme you're participating in and will also provide you with an 'ESS statement' each year which details the ESS interests you have acquired during the year for tax purposes. Your employer also gives this information to the ATO.

The taxation implications may also be different if you were a non-resident of Australia for tax purposes at any stage during the ESS vesting period. Also, if you eventually dispose your ESS interest (such as if you sell your shares), there may be CGT implications which is in addition to the tax you might have to pay under the ESS rules.

As the taxation implications of ESS interests are complex, you should consult a registered tax agent who has specialist knowledge. Further information is also available at ato.gov.au

Version: 1.06

Tax – Tax considerations: becoming a non-resident

If you are a non-resident for Australian tax purposes, it is important to understand any tax liability you may have not only in Australia, but also in any foreign country in which you're a tax resident. This may impact your wealth creation plans.

Some of the general tax considerations for outbound Australian residents are outlined below. There may be local tax implications and regulatory requirements which you are required to meet as a consequence of the financial services provided to you by us. We recommend that you speak to a local adviser or tax agent before undertaking any action.

This information is not intended to be a substitute for specialised taxation advice or an assessment of any liabilities, obligations or claim entitlements that may arise under taxation law and we recommend you consult with a registered tax agent. Any tax estimates provided by us are intended as a guide only and are based on our general understanding of taxation laws.

Residency status

As you are going overseas for an extended period of time, you will need to determine if you will be a non-resident for Australian tax purposes. Tax residency status is a complex area and will be determined based on a number of factors such as:

- The duration of your stay overseas;
- Establishment of a home overseas and other social/economic arrangements;
- Your intention to return to Australia; and
- Your ties to Australia whilst overseas (such as family, maintenance of a residence and other commitments).

Other factors may also be considered relevant in determining your residency status.

Just because you're going overseas, it doesn't necessarily mean that you will no longer be an Australian resident for tax purposes. It is important to get the right tax advice before you depart, so that you're aware of your ongoing obligations to report income in Australia. In fact, if you are still going to be treated as a tax resident of Australia, you must not only lodge an Australian tax return but also declare all of your worldwide income in Australia, including any employment or investment income you earn overseas.

Income for non-residents for tax purposes

If you're treated as a non-resident for tax purposes, your reporting obligations and the way in which certain types of income is reported and taxed will differ.

- Certain types of Australian sourced income (such as unfranked dividends and interest income) may be subject to Australian withholding tax which will be deducted by the financial institution or share issuer before it is paid to you. You don't need to report this income on an Australian tax return.
- Certain other Australian sourced income (such as rental income from an Australian rental property) needs to be reported on an Australian tax return, and may be subject to Australian tax at the non-resident individual tax rates.
- If you are participating in an employee share scheme, there may be Australian tax implications. The taxation rules for employee share schemes are very complex and it is imperative that you obtain specialist tax advice.

- Investments that you own that are not Taxable Australian Property may be subject to Australian capital gains tax (CGT) under the deemed disposal rules at the time that you become a non-resident for tax purposes. You may make an election for the deemed disposal rules not to apply however it could mean that you will be subject to CGT on the full capital gain when you dispose of the asset (even if you are a non-resident at the time).
- CGT discounts may not be available to people who are/have been non-residents. This may involve more careful planning when you are considering whether to opt out of the deemed disposal rules. You should consult with your registered tax agent prior to departure to ensure that you take the appropriate action for your circumstances.
- The Government has proposed to amend legislation which may mean the CGT exemption that applies to a dwelling that has been your main residence will no longer apply in part or in full, if you are a non-resident for tax purposes.
- The tax you're liable for may be determined by whether or not a double tax agreement (DTA) is in place between Australia and the country where you are a tax resident. A DTA is an agreement between two countries which aims to reduce or eliminate double taxation. It generally specifies which country has taxing rights to certain types of income of a person. In the case of double taxation, you may be eligible to claim a tax credit in some circumstances (usually in the country that you are residing).

Deductions

- You may be eligible to claim a tax deduction for interest costs where you use the borrowed funds to purchase an asset that produces Australian assessable income that you declare when you lodge a tax return.
- You may lose the ability to claim tax deductions where they relate to your foreign sourced income and you are a non-resident for Australian tax purposes.

Superannuation considerations

- You may be able to continue making contributions to your Australian superannuation fund whilst overseas.
- If you are a member/trustee of a SMSF, your fund and benefits can be significantly impacted if you are offshore for an extended period of time. Your SMSF may become a non-resident superannuation fund which can result in significant penalties and loss of certain tax concessions. You should obtain specialist tax advice from a registered tax agent prior to departure to determine the impact that your overseas travel will have on your SMSF so that you can implement plans accordingly.

Version: 1.06

Superannuation – Downsizer superannuation contribution

The downsizer superannuation contribution provides an opportunity for older eligible Australians to sell their home and make a contribution to superannuation from the proceeds.

Benefits

- Boost your superannuation savings.
- If the amount remains in the accumulation phase of superannuation, earnings that accrue on this amount are taxed at up to 15% rather than your marginal tax rate which could be higher.
- If the amount is used to commence a superannuation income stream, earnings that accrue on this amount are taxed at 0% rather than your marginal tax rate which could be higher. Income payments received are also tax-free as you are over 60.
- You are able to make a superannuation contribution without the need to satisfy normal eligibility criteria (including the work and total super balance tests).
- The contribution is not assessed against your contribution caps.
- Lump sum withdrawals can be made which are received tax-free.

How it works

General eligibility

To be eligible to make a downsizer contribution the following must be satisfied:

- You are aged 65 or over at the time the contribution is made
- The contribution is from the proceeds of the sale of a single eligible property in Australia
- You do not claim a tax deduction for this contribution
- You have owned the property for at least 10 years prior to the sale
- You claim the capital gains tax (CGT) main residence exemption on the sale of this property (wholly or partly)
- The contribution is made within 90 days of settlement
- An election is made to treat the contribution as a downsizer contribution
- The contract for sale of the property is entered into on or after 1 July 2018; and,
- You have not previously made a downsizer contribution in relation to the sale of another property treated as your main residence.

Below we consider some of the requirements in further detail.

Eligible property
The property must have been your home in Australia but does not include a houseboat, caravan or other mobile home.

Capital gains tax main residence exemption
You must be eligible to claim the CGT main residence exemption on this property. This exemption may be in part or for all of the ownership period.

If your home was purchased prior to 20 September 1985 (i.e. a pre-CGT asset), the tests for the main residence exemption are applied to determine whether or not you would have otherwise been eligible to apply the concession to determine whether or not the dwelling is an eligible residence.

10 year ownership period
You are required to have owned the property for at least 10 years. This is measured from the original settlement date to the time of that legal ownership passes to the new owner (settlement date).

For couples, only one member needs to satisfy the ownership requirements to allow both to make a downsizer contribution. This may arise where the property is only held in one person's name. As long as the non-owner spouse satisfies all the other criteria, a downsizer contribution can be made.

For couples, the ownership test can be satisfied by the total period of time owned by each individual. For example, if the property was solely owned by one member of a couple for over 10 years and it was inherited by the spouse upon their death, the period of ownership of the deceased spouse will count towards the ownership period of the surviving spouse. This may also arise in the event of relationship breakdown.

Downsizer contributions

The maximum downsizer contribution that an individual can make is the lesser of:

- $300,000 or
- Proceeds received on the sale of one eligible property.

Where members of a couple wish to make downsizer contributions in respect of the same dwelling, the total downsizer contributions made in respect of the same eligible property must not collectively exceed the lesser of $600,000, or the total sale proceeds.

The contribution must be made to a superannuation fund within 90 days of settlement of the property (i.e. change of ownership). You must elect to have this amount treated as a downsizer contribution in the approved form. This form must be given to the trustee of the superannuation fund before or at the time the contribution is made so the amount can be correctly classified.

If the form is not completed and provided before the contribution is made, the contribution is treated as a non-concessional contribution (see below). The trustee of the superannuation fund may refund the contribution if unable to accept the amount, because for example you haven't met a work test and therefore are not eligible to make non-concessional contributions. If the amount can be accepted, it will be assessed against your non-concessional contribution cap and will not be refunded. This situation may also arise if the ATO becomes aware that the contribution does not satisfy the criteria to be a downsizer contribution and will notify the superannuation fund trustee.

The normal criteria for making superannuation contributions do not apply when an eligible downsizer contribution is made. This includes:

- no work test
- not limited by the total superannuation balance test; and
- contribution does not count towards any superannuation contribution caps.

The downsizer contribution must be made within 90 days of the settlement of the property. An application can be made to the ATO to have this timeframe extended. The extension is at the discretion of the ATO.

Non-concessional contributions
Non-concessional contributions generally consist of contributions from after-tax income, such as personal non-deductible contributions and spouse contributions.

The annual non-concessional contribution cap for the 2018/19 financial year is $100,000. But if you are under age 65 on 1st of July in a financial year you may be able to trigger the 'bring-forward' rule to make larger contributions.

The 'bring-forward' rule effectively groups contributions over a three year period. It allows you to bring forward up to two years' worth of non-concessional cap in addition to the current year's cap. But you can only contribute up to $300,000 over the three year period. The bring-forward rule is automatically triggered if you are eligible, and exceed your annual non-concessional limit. Once triggered, your non-concessional contribution cap will not be indexed for the next two years.

In addition, you must have total superannuation savings of less than $1.6 million at 30 June of the previous financial year to be eligible to make any non-concessional contributions in the following year. As such your non-concessional cap and eligibility to use the bring-forward rule will reduce if your total superannuation savings are more than $1.4 million on the 30 June prior to the financial year in which you trigger the bring-forward rule. These rules are complex so it is important that you get advice.

If you exceed your non-concessional contribution cap, you can choose to have the excess contributions and associated earnings (as calculated by the Australian Taxation Office) refunded with penalty tax only applied to the earnings. If not withdrawn, the excess contributions are taxed at the highest marginal tax rate. The tax payable must be withdrawn from superannuation.

Risks and Consequences

- You must be eligible to make a downsizer contribution by meeting the criteria.
- The contribution must be made within 90 days of the change of ownership of the property (i.e. the date of settlement).
- The maximum amount that can be contributed as a downsizer contribution is the lesser of:
    - $300,000 or
    - the total proceeds from the sale of the property.

  This limit applies per eligible individual.
- An election must be made in the approved form to elect the amount as a downsizer contribution. This information is provided by the superannuation fund trustee to the ATO and ensures the amount is not assessed against your non-concessional contribution cap.
- If you make the contribution and are either ineligible or do not complete the election form, the contribution is treated as a non-concessional contribution. The trustee of the superannuation fund may refund the contribution if unable to accept the amount. If the amount can be accepted, it will be assessed against your non-concessional contribution cap. If you exceed your cap, additional tax implications apply and you could pay tax up to 45% plus Medicare and other levies that may apply.
- You are not eligible to claim a tax deduction for a superannuation contribution which is a downsizer contribution.

- The contribution can only be from the sale of one property. Although you may make more than one contribution from the proceeds of the sale of that property, these contributions combined must still be within the maximum limits and received within 90 days of settlement.
- It is important that you seek advice from a registered tax agent to understand your eligibility for the capital gains tax exemption for main residence for this property as this is one of the criteria for being eligible to make a downsizer contribution. This includes understanding the implications for other properties that have been your main residence which you still own, CGT payable on a property that was not your home for the entire period of ownership or any actions that impact the CGT main residence exemption.
- The contribution will increase your superannuation savings. This amount will be counted in your total superannuation balance. If your total superannuation balance exceeds the general transfer balance cap at 30 June of the previous financial year, you are unable to make non-concessional contributions.
- For social security purposes, your superannuation interest is an assessable asset and subject to deeming once you are over Age Pension age. There is no social security concession for downsizer contributions.
- If you are a Department of Human Services/DVA customer, you are required to notify the Department of Human Services/DVA within 14 days changes that could impact your entitlement. This would include the sale of the property and contribution to superannuation.
- The sale of the property may impact the calculation of the means tested fee for aged care.
- The value of your home may be subject to a cap for calculating aged care fees. If you sell your home, the entire proceeds may be assessed when calculating aged care fees and the cap no longer applies.

Version: 1.06

Superannuation – First Home Super Saver Scheme

The First Home Super Saver (FHSS) scheme is aimed at assisting you to purchase your first home. This is achieved through allowing voluntary contributions to be made to superannuation and subsequently withdrawn to pay a deposit for the first home.

Benefits

- Assist in accumulating savings as a deposit for your first home.
- Earnings that accrue on these amounts are only taxed at up to 15% in the fund which may be less than your marginal tax rate. This will assist to boost your super savings.
- When eligible contributions (and associated earnings at a set rate) are withdrawn from superannuation, the withdrawal attracts favourable tax treatment.
- It provides a disciplined way of saving for your home deposit as the amount can only be released from superannuation for that purpose.
- If the amount is not needed for a home deposit, the amount will be retained in superannuation and build your retirement savings.

How it works

General eligibility

To be eligible to withdrawal from superannuation under the FHSS scheme, you must:

1. not have owned property in Australia before
2. be aged 18 years or older; and
3. have not previously had amount released from superannuation under this scheme.

Never owned property
As this scheme is targeted towards first home buyers, it is a requirement that you have not previously owned a property. This includes an interest in any property, not just a property that was treated as a main residence. Therefore a current or previous interest in property, including an investment or commercial property, will make you ineligible to use this scheme.

If you're purchasing the property with another person, eligibility is determined individually, and provided that the criteria is met, it is possible for one person to be eligible to participate in the scheme where the other fails to qualify. For example, this might be the case where you wish to purchase a home with your spouse, but your spouse has previously owned an interest in a property but you have not.

Age requirement
When an amount is released under the FHSS scheme, you must be aged 18 or over. There is no restriction to making voluntary contributions to superannuation under 18 which may be accessed under the scheme after reaching age 18.

One release request from superannuation
Only one withdrawal can be made from eligible contributions under the scheme.

Eligible contributions

Contributions that can be withdrawn under the FHSS scheme must be voluntary. Voluntary contributions can be either concessional or non-concessional contributions.

Voluntary concessional contributions can be made from pre-tax income (eg salary sacrifice) or personal contributions for which a deduction has been claimed (personal deductible contributions). Voluntary non-concessional contributions are made from after-tax income you make and no tax deduction is claimed.

A number of contributions to superannuation are not eligible to be withdrawn under the FHSS scheme. Examples include:

- compulsory employer contributions (eg Superannuation Guarantee)
- spouse or child contributions
- Government co-contribution, and
- voluntary contributions to defined benefit funds or constitutionally protected funds.

The maximum eligible voluntary contributions that count towards the amount that can be withdrawn are:

- $15,000 per financial year, and
- $30,000 in total.

The contributions made in a year must also be within the relevant contribution cap. The contribution caps are intended to limit the amount of tax concessions relating to superannuation. Contribution caps are indexed periodically.

Concessional contributions
Your annual concessional contribution cap is $25,000 (applies in 2018/19). Concessional contributions generally consist of contributions made from pre-tax income (such as superannuation guarantee (SG) and salary sacrifice) or contributions for which a deduction has been claimed (personal deductible contributions).

If you exceed your concessional contribution cap, excess contributions are taxed at your marginal tax rate less the 15% tax already deducted within the fund. An interest penalty will also apply. You can elect to withdraw the excess contribution from your super fund. If you don't withdraw the excess it is also counted towards the non-concessional contributions cap.

Non-concessional contributions
Non-concessional contributions generally consist of contributions from after-tax income, such as personal contributions (for which you don't claim a tax deduction) and spouse contributions.

The annual non-concessional contribution cap for the 2018/19 financial year is $100,000. But if you are under age 65 on 1st of July in a financial year you may be able to trigger the 'bring-forward' rule to make larger contributions.

The 'bring-forward' rule effectively allows you to bring forward up to an additional two years' worth of non-concessional cap and add it to the current year's cap. If eligible, you may be able to contribute up to $300,000 over the three year period. The total bring-forward amount you're able to trigger will reduce if your total superannuation savings are at least equal to $1.4 million on the 30th of June prior to the financial year in which you trigger the bring-forward rule.

The bring-forward rule is automatically triggered if you're eligible and make non-concessional contributions in a financial year that exceed your annual non-concessional limit. Once triggered, your non-concessional contribution cap will not be indexed for the next two years. In addition, you must have total superannuation savings of less than $1.6 million at 30 June to be eligible to make any non-concessional contributions in the following years.

These rules are complex so it is important that you get advice.

If you exceed your non-concessional contribution cap, you can choose to have the excess contributions and associated earnings (as calculated by the Australian Tax Office (ATO)) refunded with penalty tax only applied to the earnings. If not withdrawn, the excess contributions are taxed at the highest marginal tax rate plus Medicare levy. The tax payable must be withdrawn from superannuation.

Releasing eligible contributions

To have eligible contributions released under the FHSS scheme, you will need to:

1. Apply to the ATO to determine the maximum amount that you are eligible to withdraw, and
2. Complete the release authority provided by the ATO.

1. Applying to the ATO

When you are ready to make the withdrawal under the FHSS scheme, an application is made to the ATO. The ATO will issue you a FHSS determination. This determination will state the maximum amount of eligible contributions and associated earnings that you are able to withdraw – referred to as the FHSS maximum release value.

The associated earnings as part of the FHSS maximum release value is determined by a legislative formula and does not reflect the actual earnings derived in the superannuation fund.

The maximum release amount will be to the total of:

- Eligible non-concessional contributions
- 85% of eligible concessional contributions
- 85% of associated earnings.

As the amount withdrawn is to assist with purchasing your first home, the application to the ATO must be done before entering into a contract for purchase or construction.

2. Complete release authority

Once you receive a FHSS determination, you may request the ATO to issue your superannuation fund with a release authority for all or part of the maximum release amount.

You are only able to make one request for an amount to be withdrawn.

The amount released by the superannuation fund will be directed to the ATO. The ATO will withhold any tax (see below) and then provide you with the net amount.

Taxation of released amount

Released eligible non-concessional contributions will be received tax-free. Eligible concessional contributions and associated earnings (including those on non-concessional contributions) withdrawn will be added to your assessable income for that financial year and taxed at your marginal tax rate less a 30% tax offset. A tax offset reduces tax payable. As the withdrawal will occur during the financial year, the ATO will make an estimate of your marginal tax rate. If the ATO is unable to estimate your income, withholding tax of 17% will apply.

Amounts received under the FHSS scheme are ignored when calculating eligibility to a number of benefits and concessions. Examples include:

- Family Tax Benefit A and B
- Child support
- HECS/HELP repayments
- Medicare levy surcharge, and
- Government co-contribution.

Use of withdrawn amount

As the scheme is to assist you with the purchase of your first home, the amount withdrawn must be used to enter a contract to purchase or construct your first home within 12 months. The ATO has discretion to extend this period for an additional 12 months.

The ATO must be notified within 28 days once you have entered into the contract.

Your first home purchased with this money must be occupied by you as soon as it is practical as you need to establish this property as your main residence. You must live there for at least six of the first 12 months.

If you are not able to enter a contract within the 12 months (or ATO approved extended period) you have two choices:

1. Re-contribute the amount back to superannuation
   If you contribute the amount back to superannuation, the amount will be a non-concessional contribution. This will count towards your non-concessional contribution cap. As a non-concessional contribution you are not able to claim any amount as a tax deduction.

2. Pay the additional FHSS tax
   If you do not wish to contribute the amount into superannuation, you are able to retain this money but are liable for the FHSS tax. This tax is 20% of the assessable FHSS withdrawn amount (i.e. concessional contributions and all associated earnings). This is a flat tax rate.

   Additional tax penalties are payable if this tax is not paid within 21 days of receiving the ATO notice.

Risks and Consequences

- The contributions for the FHSS scheme must be voluntary and exclude any contributions made on your behalf, such as mandated employer or spouse contributions, as well as contributions in excess of the relevant cap. Only voluntary contributions made from 1 July 2017 may be eligible under this scheme.

- Eligible contributions for the FHSS scheme are limited to $15,000 per year, up to a total of $30,000. These contributions will also count toward the relevant superannuation contribution caps. Making contributions in excess of these caps may incur significant tax penalties.
- The amount that can be withdrawn will be determined by the ATO which includes eligible contributions and associated earnings. Withdrawals can be made from the 2018/19 financial year.
- When withdrawn, concessional contributions and associated earnings are included in your assessable income and taxed at your marginal tax rate less a 30% tax offset. Non-concessional contributions are returned tax-free.
- The withdrawn amount must be used to enter a contract to purchase or construct your first home within 12 months from the release date. It is a requirement that you establish this as your home and reside there for at least six months.
- The ATO will request information to determine your eligibility to make the withdrawal and use of the funds as a deposit for your first home under FHSS scheme. Penalties may apply for making false statements.

Version: 1.06

Retirement Income – Transfer balance cap

The transfer balance cap limits the amount that can be transferred into what is known as the 'retirement pension phase' of superannuation and receive the benefit of 0% earnings tax.

Benefits

- Earnings on retirement phase account based income streams are taxed at 0% if within your transfer balance cap.
- Certain non-account based income streams payments, such as defined benefit pensions, receive favourable tax when assessed within the cap.
- Superannuation savings above the transfer balance cap can continue to be held in the accumulation phase where earnings are taxed at up to 15% which may be lower than your marginal tax rate.
- As the cap applies to each individual, it would allow a couple to have up to $3.2 million in the 0% earnings environment of superannuation.

How it works

The transfer balance cap limits the amount that can be transferred into what is known as the 'retirement phase' of superannuation and receive the benefit of 0% tax on earnings.

All individuals have their own transfer balance cap. Your personal cap is determined based on a number of things, including:

- the general transfer balance cap at the time you first commence a retirement phase superannuation income stream,
- any indexation that may be applied to the general transfer balance cap, and
- the total of amounts that you have used to commence retirement phase income streams.

When a superannuation income stream is commenced or transfers to retirement phase, you will start to have a 'transfer balance account'. These accounts are managed by the Australian Taxation Office. This is a notional account, where certain types of transactions you make in relation to your superannuation income streams are recorded. Your transfer balance account relative to the available cap is what determines whether you're eligible to transfer additional amounts to retirement phase pensions in the future.

If your transfer balance account exceeds the cap at any time, additional tax and penalties may apply.

Income streams measured against the transfer balance cap include:

- account based pensions,
- defined benefit pensions, or
- deferred income stream payable or transition to retirement income streams payable to a person who has met one of the following conditions of release:
    - retirement,
    - terminal illness,
    - permanent incapacity, or
    - reaching age 65.

Death benefit superannuation income streams (with modifications for child death benefit pension) are also treated as retirement phase pensions and are assessed against the cap.

NOTE: Transition to retirement income streams are not assessed against the transfer balance cap until certain conditions of release have been satisfied (see above). Please refer to the 'Transition to Retirement Pension' Understanding Series for further information.

What counts towards your cap?

The transfer balance account operates via a credits and debits system, and doesn't reflect your pension account balances at a particular time. This means that your actual retirement phase pension balance may be more or less than the deemed balance of your transfer balance account.

A credit is an assessment against the cap which will most commonly apply when an income stream commences, or when a person has certain other types of superannuation income streams, such as 'transition to retirement' income stream, and they either reach age 65 or notify their fund that they have met another condition of release.

Where you commence a new account based retirement phase pension, the account balance at commencement is the amount that will be credited to your transfer balance account and assessed against the cap.

A debit arises to reduce the amount assessed against your cap. Debits include adjustments for certain amounts such as:

- contributions made under a structured settlement
- commutations (or lump sums) taken from your income stream, and
- adjustments to meet family law settlements.

Regular pension payments and market movement which may arise due to fluctuations in investment values, do not impact your transfer balance account. That is, they will not result in a credit or a debit.

Certain income streams, including defined benefit pensions, that do not ordinarily have an account balance, have a value determined for the purpose of the transfer balance cap, based on a formula contained in the legislation. The calculation is:

Annual Income x 16

As you will have your own transfer balance cap and account, the cap therefore includes all superannuation income streams that are payable to you.

Exceeding the cap

An excess transfer balance occurs if the total value of all credits to your transfer balance account exceeds your transfer balance cap. This would exist for example, if the cap was $1.6 million and you commenced a pension with $1.8 million. In this case, you would receive a credit for $1.8 million, and would have a $200,000 excess transfer balance amount.

You would not be deemed to have an excess however, if your cap was $1.6 million, you commenced a pension with this amount, and through investment returns, your account balance increased to $1.8 million over time. This is because you would only receive a credit to your transfer balance account of $1.6 million, as this is the amount you used to commence your pension, and market movement doesn't result in a debit or a credit.

In the case of an excess, it will be necessary to:

- reduce the amount held in pension phase (e.g. a partial commutation) and
- pay excess transfer balance tax.

This applies for income streams that can be commuted (i.e. converted to a lump sum) such as an account based pension. The amount commuted must also include notional earnings (see below). The excess amount can be rolled back to the accumulation phase of superannuation or taken as a lump sum withdrawal. Depending on your age, you may have to pay tax on any amount you take out of super as a commutation. There is no limit to what you can maintain in a super accumulation account, so this option may enable you to maximise your investments in a concessionally taxed environment.

If non-commutable income streams (eg defined benefit pensions) are in excess of the transfer balance cap, the underlying capital cannot generally be removed to reduce the amount assessed against the cap. In such cases, excess transfer balance tax is not payable; however the taxation of the income stream payments may change (see below).

The excess transfer balance tax is based on notional earnings determined by a legislative formula. Excess transfer balance tax is payable for all days where the amount held in pension phase of superannuation is in excess of the cap.

Notional earnings are subject to tax. From 1 July 2018, the additional tax for the first breach of the cap is 15% and subsequent breaches 30%.

If you exceed your transfer balance cap, adjustments to the pension can be made as soon as possible to minimise the excess transfer balance tax. If you are unaware or leave the funds in pension phase, the ATO will make a determination once the information from superannuation provider is received. Notional earnings will be calculated from the date of breach through to when a determination is made and that amount will then attract the General Interest Charge.

Once you have received a determination, the ATO provides you the opportunity to reduce the amount held in your pension by the amount in that determination. If you do not take the necessary steps, the ATO can provide a notice to your superannuation pension provider to make the necessary commutation on your behalf.

Non-commutable income streams exceeding the cap

Non-commutable income streams are also assessed against the cap. The value of these income streams is determined by a legislative formula. In many cases, these income streams cannot be commuted if the assessment creates an excess against the transfer balance cap.

Where non-commutable income streams are in excess of the transfer balance cap, the taxation of the pension payments will change. Pension payment (income) above what is known as the 'capped defined benefit income cap' is subject to different taxation rates compared to those amounts within the cap. In 2018/19, the general capped defined benefit income cap is $100,000, however your cap may be reduced, based on your personal circumstances, and the types of non-commutable pension income you're receiving.

The taxation is summarised below:

Type of scheme	Age	Amount below $100,000* income cap	Amount above $100,000* income cap
Taxed	< Preservation age	Taxed at marginal tax rate	Taxed at marginal tax rate
	> Preservation age - 59	Taxed at marginal tax rate less 15% offset	Taxed at marginal tax rate less 15% offset
	60 +	Tax-free	50% of amount above cap added to assessable income and taxed at marginal tax rate
Untaxed	< Preservation age	Taxed at marginal tax rate	Taxed at marginal tax rate
	> Preservation age - 59	Taxed at marginal tax rate	Taxed at marginal tax rate
	60 +	Taxed at marginal tax rate less 10% offset	Taxed at marginal tax rate

*General cap applies is 2018/19. Please note that the $100,000 income cap may be reduced in certain circumstances.

Transfer balance cap indexation

The transfer balance cap may be indexed in future years to CPI in $100,000 increments. The extent that an individual benefits from indexation depends on whether that person has triggered a credit (or assessment) against their own transfer balance cap.

If a person has not triggered a credit against their transfer balance cap, they will benefit from the full increase of any indexation.

Those who have commenced an income stream but have not fully utilised the cap will have indexation applied only to the proportion of the unused transfer balance cap.

Indexation is not available for those who have completely utilised their transfer balance cap.

Risks and Consequences

- Commencing a superannuation income stream triggers an assessment against your transfer balance cap and the ATO establishes your transfer balance account.
- If the total amount used to commence superannuation income streams in retirement phase exceeds the cap, additional tax is generally payable.
- If you exceed the cap and have account based income streams, you are required to reduce the amount plus the notional earnings to ensure your transfer balance account reduces to at least $1.6 million.

- If you exceed the cap and have non-account based income streams (such as defined benefit pension), certain tax concessions no longer apply to the amount above your income cap (general cap is $100,000 pa in 2018/19).
- Death benefit pensions are also assessed against the transfer balance cap. Special rules apply to death benefits paid to children.
- When you first commence a retirement phase income stream and the ATO establishes your transfer balance account, indexation of your cap will be limited to the unused portion. If you have utilised the full transfer balance cap, no indexation will apply to your cap.

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Retirement Income – Term Allocated Pension

A term allocated pension may provide tax-effective, regular income to help meet your income needs using your superannuation savings.

NOTE: The ability to commence a term allocated pension from existing superannuation savings ceased on 19 March 2007. A term allocated pension commenced today can only commence with the proceeds from the commutation of an existing complying income stream.

Benefits

- Pension income you receive may be tax-free if you are aged 60 or over (and paid from a taxed super fund) depending on the level of income.
- Some of the pension income may be taxable if you are under age 60. You may be entitled to a 15% tax offset on the taxable portion of your pension payments in some circumstances.
- You will be required to receive a minimum amount from your pension each year, which is based on a payment factor determined by the remaining term of your pension. However this amount can be adjusted up or down by 10%.
- You have flexibility by continuing to have a wide range of investment options depending on the choice available with the pension provider.
- You can nominate eligible beneficiaries to receive the remaining benefits upon your death.
- You may continue to receive favourable Department of Human Services/Veterans' Affairs treatment under the income and assets tests.

How it works

A term allocated pension is an income stream paid from a superannuation fund. To have commenced a term allocated pension, you would have met a full condition of release to have unrestricted non-preserved funds in your superannuation account. Full conditions of release include circumstances such as meeting the retirement definition for super purposes, attaining age 65, and certain situations where you're classified as permanently disabled.

Term allocated pensions may be tax-effective because:

- Pension income paid to you from age 60 may be tax free (from a taxed fund) depending on the level of income.
- Taxable pension income paid to you between preservation age and age 60 or due to permanent disability is eligible for a 15% tax offset.
- Within the term allocated pension account, all earnings and capital gains from investments are tax exempt. This can boost the effective returns compared to other similar investments you may own personally.

The annual amount of pension payments is determined based on:

- Account balance
- Payment factor which is based on the remaining term
- Any adjustment of 10% (up or down that you elect).

Your account balance will increase and decrease over time due to factors such as positive or negative market movements, pension payments, fees and charges. These factors can influence how long your account based pension will last.

Pension transfer balance cap and taxation of pension payments

The total amount of superannuation money that you can transfer to tax-free superannuation income streams is subject to a lifetime cap. In 2018/19, the cap is $1.6 million (and may be indexed in future years). You will have your own transfer balance cap and it includes all superannuation income streams that are payable to you. Depending on your circumstances, superannuation income streams could include:

- Account based pensions
- Annuities
- Term-allocated pensions
- Defined benefit pensions, and
- Death benefit income streams from one of the above.

Commenced before 1 July 2017

The method your term allocated pension is valued to determine the amount that counts towards the transfer balance cap is based in part, on whether it was commenced before or after 1 July 2017.

Certain income streams which are non-commutable, including term allocated pensions commenced prior to 1 July 2017, have a value determined for the purpose of the transfer balance cap, based on a formula contained in the legislation. The calculation is:

Annual Income x 16

If the amount calculated under the formula exceeds your transfer balance cap, it will impact the taxation of the pension payments.

If the amount of income you receive from your term allocated pension from a taxed fund and other non-commutable income streams exceeds $100,000, you will be subject to additional taxation. The taxation of pension payments, both below and above the $100,000 thresholds are:

Type of scheme	Age	Amount below $100,000* income cap	Amount above $100,000* income cap
Taxed	< Preservation age	Taxed at marginal tax rate	Taxed at marginal tax rate
	> Preservation age - 59	Taxed at marginal tax rate less 15% offset	Taxed at marginal tax rate less 15% offset
	60 +	Tax-free	50% of amount above cap added to assessable income and taxed at marginal tax rate

** $100,000 income cap applies to the 2018/19 financial year and may be indexed in future years.*

Commenced on or after 1 July 2017

If a new term allocated pension is commenced on or after 1 July 2017, the amount used to commence the pension (or purchase price) counts towards your transfer balance cap. Exceeding the transfer balance cap may result in tax penalties.

The taxation of your term allocated pension payments will consist of a taxable and a tax-free component. Whilst you are under age 60 (but have reached your preservation age), pension payments from the taxable component are included in your assessable income with a 15% tax offset to help reduce your tax. Once you turn age 60, all pension income is tax free (from a taxed fund).

Please refer to the 'Transfer Balance Cap' Understanding Series for further information.

Pension payments
You must receive a certain amount of income each year from your term allocated pension.

When you commence your pension it is calculated based on the nominated term at that time and your account balance. The pension amount is then recalculated every 1 July based on a payment factor determined by the remaining term and account balance at that time.

You have the flexibility to increase or decrease the calculated pension by 10%.

Department of Human Services/Veterans Affairs

Term allocated pensions may be classified as complying income streams for Centrelink/DVA purposes. This means the pension may receive favourable treatment under the income and assets tests.

The income of a term allocated pension is assessed by the Department of Human Services/DVA's income test as follows:

- subject to deeming rates where the term is five years or less, or
- total pension income is reduced by a 'deductible amount' that reflects a return of the purchase price where the term is more than five years.

If your term allocated pension satisfies the criteria, only 50% of the account balance is assessed under the Assets Test. Otherwise the full account balance is counted as an assessable asset.

Risks and Consequences

- Your Term Allocated Pension may not last for the rest of your life. Your balance will rise and fall based on investment returns and pension payments. There will be no capital left at the end of the term of the pension.
- The amount of the income payments will vary each year depending on the account balance and remaining term as at 1st July each year. The amount of the annual payment can be varied either up or down by 10%.
- There is no access to capital in the form of lump sum payments. Withdrawals beyond the pension payments are not permitted.

- Your pension strategy and financial situation should be reviewed annually or if your circumstances change.
- A lifetime cap of $1.6 million applies to the total amount of transfers that can be made into retirement phase. This may be subject to indexation, and applies to all superannuation income streams including term allocated pensions. Additional tax will apply if amounts exceeding this cap are transferred. Ordinarily, you will be required to remove the excess amount, as well as notional earnings on this amount. If you have a non-commutable product, such as a term allocated pension, additional tax may apply on the pension income where you can't remove a lump sum to eliminate your excess.

- These rules are complex and you should seek further advice from us to understand how this rule will impact upon you.
- You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your superannuation fund.

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