

ULTIMATE

REAL ESTATE SUCCESS
COACHING PROGRAM

VIRTUAL BOOTCAMP

APRIL 2020 | 3. SUPERANNUATION,
4. TAXATION & BOOKKEEPING



SESSION THREE

How To Achieve An Effective Tax-Free Income In Retirement With Your Superannuation



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REAL ESTATE SUCCESS
COACHING PROGRAM

VIRTUAL BOOTCAMP
14TH – 23RD APRIL 2020

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SELF MANAGED SUPERANNUATION



Clint Ducat Adv Dip FS (FP)
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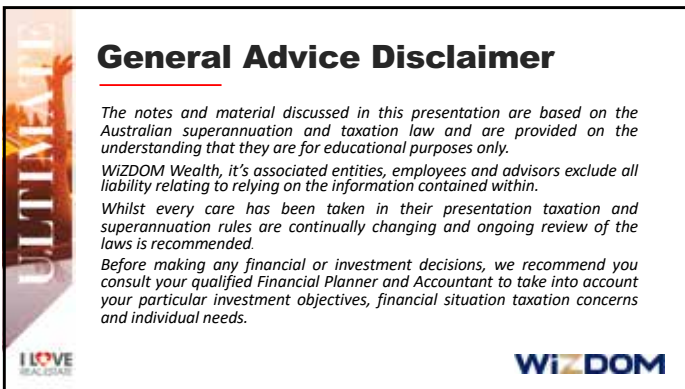
Clint Ducat is an Authorised Representative #434181 and WIZDOM Advisory is a Corporate Authorised Representative #434801 of WIZDOM Wealth Pty Ltd. Australian Financial Services Licensee #485363

We can help with:

- Superannuation Advice and Consolidation
- Assessing the viability of a SMSF for you
- SMSF set up and implementation
- Ongoing Superannuation/SMSF Advice and Management

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General Advice Disclaimer

The notes and material discussed in this presentation are based on the Australian superannuation and taxation law and are provided on the understanding that they are for educational purposes only.

WIZDOM Wealth, it's associated entities, employees and advisors exclude all liability relating to relying on the information contained within.

Whilst every care has been taken in their presentation taxation and superannuation rules are continually changing and ongoing review of the laws is recommended.

Before making any financial or investment decisions, we recommend you consult your qualified Financial Planner and Accountant to take into account your particular investment objectives, financial situation taxation concerns and individual needs.


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Taxing Superannuation
The big advantage

Super in **accumulation phase** before retirement:

- Income Tax – 15%
- Contributions Tax – 15%
- Capital Gains Tax – 10% (15% but 2/3 assessable)




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Taxing Superannuation
The big advantage

Super in **pension phase** after retirement:

- Income Tax* – 0% (over 60)
- Contributions Tax – 15-30%
- Capital Gains Tax* – 0%



*Subject to the \$1.6m Pension Cap

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Accumulation & Pension Phase

Accumulation 15% tax on Income	Pension* No tax on income (Retired over 60)
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*Subject to \$1.6 million transfer balance cap on transfers from accumulation to pension phase for individuals.

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Contributions

2 MAIN TYPES OF **SUPER**

CONCESSIONAL
(Before Tax)

NON-CONCESSIONAL
(After Tax)

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What can I Contribute?

Concessional

General Cap (all ages) - FY 2019/20 - **\$25,000**

Some recent changes

- Beginning 1st July 2018 introduction of “Catch-up” Concessional Contributions on a rolling basis for 5yrs available to members with a total superannuation balance < \$500,000

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Catch up Concessional Contributions

Used \$10k Unused \$15k	Used \$10k Unused \$15k	Used \$20k Unused \$10k	Used \$20k Unused \$5k	Unused \$25k
2018/19	2019/20	2020/21	2021/22	2022/23

In the 2022/23 FY, a total concessional contribution of \$70k could be made

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What can I Contribute?

Non-Concessional

- 2018/19 FY \$100,000 per annum (until the member balance reaches \$1.6 mil)
- “Bring forward Rule” allows you to bring forward a further 2 yrs of Non-Concessional Contributions

Sale of a Small Business Active Asset

- Retirement exemption – Lifetime Limit **\$500,000**
- 15-year asset exemption – Currently **\$1,515,000**

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New Downsizing Contribution

- From 1st July 2018, if you are 65 years old or older and meet the eligibility requirements, you may be able to choose to make a downsizer contribution into your superannuation of up to \$300,000 from the proceeds of selling your home.
- The downsizer contribution is not a non-concessional contribution
- It can also still be made if the member’s total super balance is already greater than \$1.6m
- Must be from proceeds of the sale of your PPR (that you have owned for 10yrs or more) and made within 90 days of receiving the proceeds.


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In-Specie Contributions

- Contributions to your fund in the form of an asset other than money.
- What assets are allowed to be in-specie contributed to a SMSF:
 - listed shares and securities
 - business real property (land and buildings used wholly and exclusively in a business).




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Business Real Property

What does business real property mean?

The definition of BRP for superannuation purposes includes any freehold or leasehold interest in real property where the property is used wholly and exclusively in one or more businesses.



State	Section of the State Duties Act	Details
NSW	Section 62A	\$500 concessional flat rate
VIC	Section 41	Exemption
WA	Section 122	Nominal duty of \$20
QLD	Stamp Duties Act 2001 (QLD)	No exemption
SA	Stamp Duties Act 1923 (SA)	No exemption

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When can you get access to your Superannuation?

Main events:

- Reach age 65
- Reach Preservation age and retire
- Use a transition to retirement strategy (limitations apply)
- Financial hardship




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COVID19 – Early Access to Super

- Must eligible to receive
 - job seeker payment,
 - or after 1st Jan 2020 either
 - Be made redundant (stood down)
 - Working hours reduced by > 20%
 - Sole trader turnover reduced by > 20%
- Access to Super
 - Access 10k before 1st July 2020
 - Access a further 10k from 1st July 2020 until 24th Sep 2020



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When can you get access to your Superannuation?

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

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COVID19 – Temporary reduction of minimum pension payments

Who is eligible?

- All account-based pension holders

Age	Minimum annual pension payment	NEW minimum annual pension payment for 2019-20 and 2020-21
Under 65	4%	2%
65-74	5%	2.5%
75-79	6%	3%
80-84	7%	3.5%
85-89	9%	4.5%
90-94	11%	5.5%
95+	14%	7%

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is a SMSF right for you?

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Self Managed Super Funds

- How much do you generally need?
- What's the process to set up a SMSF?
- How long does it take?
- How much does it cost? (To set up and to operate?)
- Who can have one?
 - 18 years, max age to set one up?
 - Maintaining Australian Tax Residency?
 - Bankrupts, previous convictions (fraud etc)?

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The Structure of an SMSF

TRUSTEE
(Should be a Special Purpose Company)

SMSF

MEMBERS
Maximum of 4 Members*
*Proposed to increase to 6 members

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WHAT ARE TRUSTEES RESPONSIBLE FOR?

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SMSF Annual Compliance

As a trustee you have a number of administrative obligations. Including, but not limited to:


- Appoint an SMSF auditor
- Value the funds assets annually
- Lodge SMSF annual returns
- Accounting records and minutes
- Notify the ATO of changes

*NOTE: The **ATO** takes activities in a SMSF **VERY** seriously and actively monitor for breaches

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Fines and Penalties





ATO can issue fines of up to \$12,600 per penalty to the Trustee

Examples – *these are only some penalties*

• Failure to prepare financial statements	\$ 2,100
• Providing financial assistance to members	\$12,600
• Failing to comply with ATO education directive	\$ 1,050
• Contravention of the in-house asset rules	\$12,600
• Failing to keep trustee minutes for at least 10yrs	\$ 2,100

In addition to the above fines, the **ATO** can also issue **Education** and/or **Rectification Directions** to the Trustee/s

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SMSF Trustee Education

We encourage new and existing Trustee's about SMSFs and the environment they operate in.

The Self-Managed Superannuation Fund Trustee Education Program, is a free program designed to educate trustees of SMSFs to understand their role and responsibilities.

www.smsftrustee.com
www.smsfwisdom.com.au





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Investment Strategy

Expected Risk

Expected Return

SAFE

BOND PORTFOLIO

MIXED

SPECIAL PURPOSE TRUST

DIVERSIFIED

IS YOUR SMSF ADEQUATELY DIVERSIFIED?

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Existing SMSF Housekeeping

- Are your reporting requirements up to date?
- When was your **SMSF's Trust Deed** last updated? Does it take into account all the recent super reforms?
- Have you got a **Special Purpose Trustee Company** acting as Trustee?
- Is your **Investment Strategy** current? Does it need updating?
- Have you got a valid **Death Benefit Nomination's**?

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Buying property with your SMSF, what can be done?

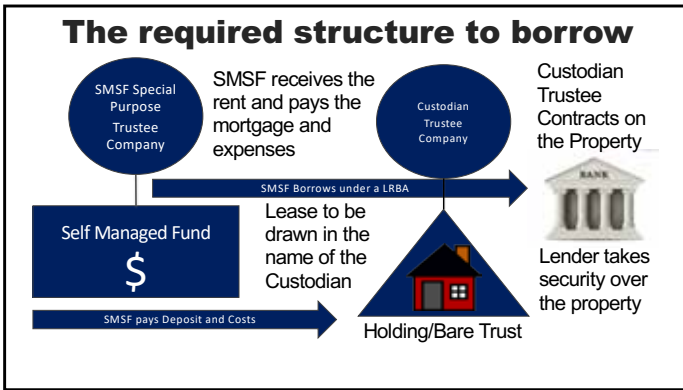
With Borrowings

Without Borrowings

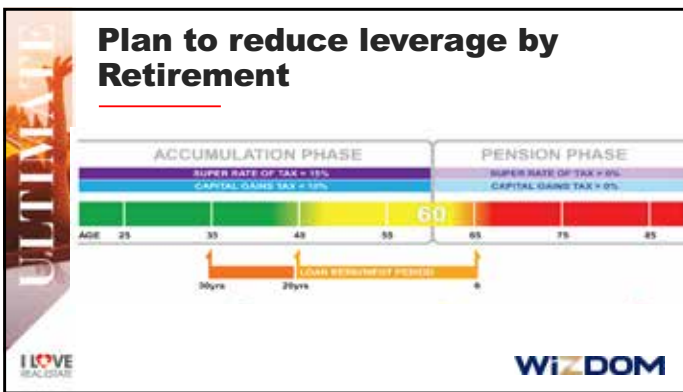
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Unit Trusts and SMSF's

Related Party (Ungearing) Regulated 13.22c Unit Trust

An SMSF can acquire units in an ungeared unit trust to acquire direct property.

- ✓ Can include other unit holders (including related parties)
- ✓ Can acquire Commercial or Residential Property
- ✓ Can manufacture growth:
 - Renovation | Subdivision | Construction

*Needs to adhere to the strict requirements outlined in SIS R 13.22c

No borrowing on the property owned in the Unit Trust

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Unit Trusts and SMSF's

Unrelated Party (Geared) Unit Trust

This is where no member or related parties control the trust - i.e. own > 50% of the Units or exercise sufficient influence

- Can have more than 2 parties and can comprise of SMSF, Company, Discretionary Trust and Individual ownership
- Generally treated as a normal Unit Trust for borrowing but you must be dealing at a Commercial Level

Considerations

- Make sure your funds trust deed/investment strategy allow it
- All unit subscriptions must always be at market value

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Plan for the end



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Plan for the end

- When will you wind-up the fund?
- Understand the wind-up process and potential costs?
- Age and specific requirements of the members?
- Lost capacity of a member?

Would a Family SMSF work for your family?

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SESSION FOUR

**How To Legally
Minimise Your Tax And
Maximise Your Income**



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TAXATION & BOOKKEEPING




Kamal Power B.Bus, FCA
Client Advisor, Chartered Accountant

Our team are specialists in Property Tax servicing clients all over Australia.

We can assist with: • Accounting Software Setup & Support
• Tax Returns & Financial Statements • Tax & Business Advice
• BAS Preparation • Analysis of Property Feasibilities

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Taxation of Structures

- **Sole Trader**
 - Marginal Rates on "Taxable Income"
- **Company**
 - 27.5% or 30% Tax Rate
- **Super Fund** (discussed more in "Super" segment)
 - 15% Tax Rate in "accumulation phase"
 - 0% Tax Rate in "pension phase"



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Taxation of Structures

Trusts & Partnerships

- These are not “separate legal entities”
- They do not pay tax in their own right
- Partnership - Net Income or Loss passed down
- Trust - Net Loss cannot be distributed
- Distribution to associated entities if Trust Deed allows






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2019/20 Individual Tax Rates


Taxable Income	Tax Rate
0 – 18,200	Nil
18,201 – 37,000	19%
37,001- 90,000	32.5%
90,001 – 180,000	37%
180,001 +	45%

* Does not include Medicare Levy (2%) or Medicare Levy Surcharge (1 – 1.5%)






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ATO HIT LIST



- Work related deductions – now all types
- Motor Vehicle claims – 5,000 kms
- Rental property deductions – now doubled the audits
 - Interest, repairs, holiday homes
- Property Developers (including Flipping your PPR)
- Lifestyle assets – boats, planes, high value MV, thoroughbred horses

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Bullet Proofing yourself against an ATO audit

- Have a good system for Record Keeping
- Audit Insurance
- Continued Education
- Don't Ignore it!
- **Lodge on time!**



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Are you an investor or are you in the business of real estate?

- Frequency or Regularity
- Profit making Intention
- Start now!! Work out a system



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Accounting Systems




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Record Keeping



- Use an asset register

<p>Investor Accounting</p> <ul style="list-style-type: none"> • Asset Register • Year end Accounting • Job Costing 	<p>Project Accounting</p> <ul style="list-style-type: none"> • Feasibilities • Budget v Actual • Job Costing
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What Documents to Keep

- Purchase/Sale Contracts and Settlement Statements including all invoices
- Details of Margin Scheme if applied
- Receipts/Invoices for Annual Income and Expenses
- Property Agent Rental Statements
- Property changed between PPR and rental - need record of dates and market valuations at this date when you sell the property
- Logbooks for MV expenses (where in the business of real estate)
- Diaries to substantiate home office expenses, internet & phone use



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How long to keep your Records

- 5 years from the date your notice of assessment was issued- 7 years if you are a company.
- For Property - 5/7 years from the date your notice of assessment was issued for the year the property was sold
- For CL - 5 years after loss is utilised against a CG, not after loss incurred




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Filing

- Asset Register
- Receipts (In English, legible, digital or manual)




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Property Investor

- ✓ Trust has bank account
- ✓ Trust Lodges tax return
- ✓ Trust applies for loan
- ✓ Trust on title (NSW and VIC excepted)




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Property Accounting

Income	\$
Expenses	\$
Depreciation	\$
Rates	\$
Insurance	\$
Management	\$
Interest	\$
Telephone	\$
Stationery	\$
Repairs	\$
Other	\$ _____
Profit/(Loss)	\$ _____



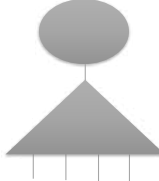
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When in the Business of Real Estate

Flipper Trust

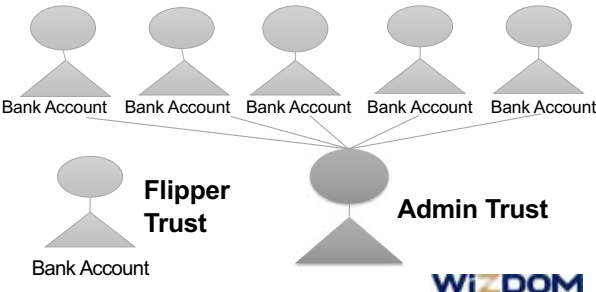
- Trust Bank Account
- Trust has ABN and may have registered business name
- Trust may need GST and payroll registration.
- Can claim more expenses this way but trust and intention must exist!



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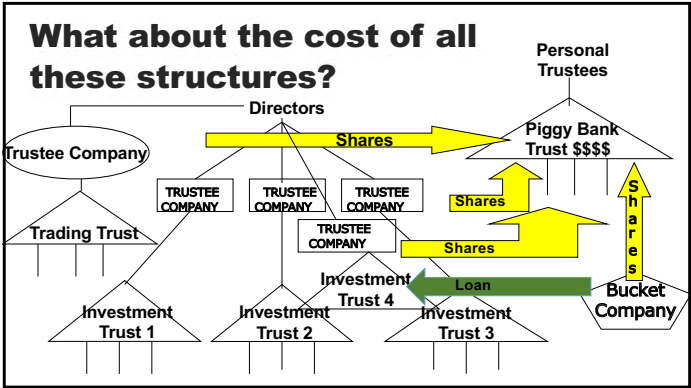
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Investment Trusts



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Deductions

- Business
- Individual / Employee
- Rental Property

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Expense Categories

- Advertising for tenants
- Bank charges
- Body corporate fees
- Cleaning
- Council rates
- Gardening and lawn mowing
- Home Office
- Insurance
- Land tax
- Legal expenses
- Repairs and maintenance
- Interest expenses
- Phone
- Pest control
- Property agent fees and commissions
- Stationery and postage
- Water charges

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Borrowing Expenses.
What can I claim?

- Stamp duty charged on the mortgage
- Loan establishment fees
- Title search fees charged by your lender
- Costs for preparing and filing mortgage documents
- Mortgage broker fees
- Fees for a valuation required for loan approval
- Lender's mortgage insurance
5 years or life of the loan!!







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What can't I claim?

Stamp duty charged by your state/territory government on the transfer (purchase) of the property title – may be included in calculating the capital gains tax

Borrowing expenses on the portion of the loan you use for private purposes (for example, money you invest in a super fund).




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Repairs & Maintenance

Repairs are to make good or remedy defects in, damage to or deterioration of the property.

Maintenance is to prevent deterioration or fix existing deterioration.

Can claim an immediate deduction

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Improvements

When we say 'improvement' we mean work that:

- provides something new
- generally furthers the income-producing ability or expected life of the property
- generally changes the character of the item you have improved
- goes beyond just restoring the efficient functioning of the property.

Needs to be depreciated over a number of years

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When is a repair not a repair?

If you replace something clearly identifiable & separable even if broken – e.g. stove, set of kitchen cupboards it is likely to be an improvement

If you used a different material to what was previously used - e.g. replace wooden cladding with plastic cladding it is likely to be an improvement

Make sure you get detailed invoices especially if work has several components


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Repairs & Timing

REPAIRS completed BEFORE a property is rented

- incurred before income is earned
- classified as improvements
- depreciable not deductible

TIMING IS EVERYTHING 

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Repairs & Timing

REPAIRS completed DURING a property is being rented

- if attributed to fair wear and tear it is deductible
- otherwise an improvement and depreciable not deductible

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Repairs & Timing

REPAIRS completed AFTER a property is being rented

- if attributed to fair wear and tear from tenancy then deductible
- otherwise an improvement and not deductible until property sold

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Repairs & Timing

ASBESTOS is an environmental hazard and the removal is considered a repair not an improvement



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Depreciation

Allowable tax deduction to take account of the fair wear and tear and reducing value of assets.

Two Part:

- Fixtures and Fittings
- Building or Capital Works

Prime Cost or Diminishing Value?



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Depreciation - Plant

Limited to new plant and equipment for residential rental premises

Purchasers of existing plant and equipment are unable to depreciate (forms part of the cost base for CGT purposes)

No claim for second hand depreciating assets

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Depreciation - Plant

Acquire newly developed property – may be able to still claim

ATO says that “residential premises” include commercial properties **able to be used** for residential purposes – boarding/rooming houses etc.

This definition also applies to travel

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Depreciation – Building

Building & Capital Improvements

16/9/87 - present

2.5% of building cost when built


Get a Quantity Surveyor




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BMT Educational resources for Investors




Depreciation Calculator



Maverick Newsletter



BMT Website – Investor Page



You Tube & Social Media

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Example

House Built: 2010

Cost: \$260,000

Building allowance applicable: 2.5%

Claimable: \$6,500

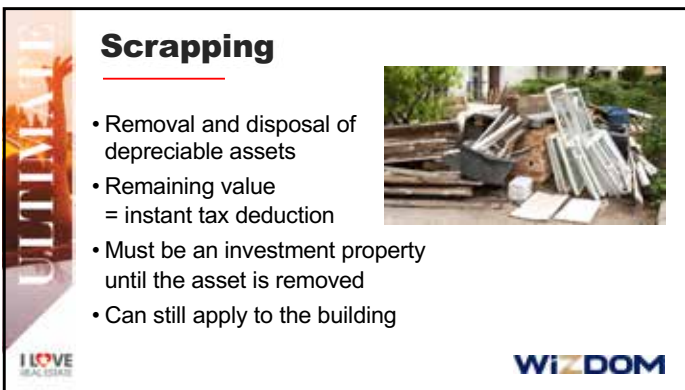
Claimable amount is for the 1st full year onwards

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Example
 Dishwasher
 Cost: \$1,350
 Diminishing value rate: 20%
 Claimable: \$270
 Claimable amount is for the 1st full year

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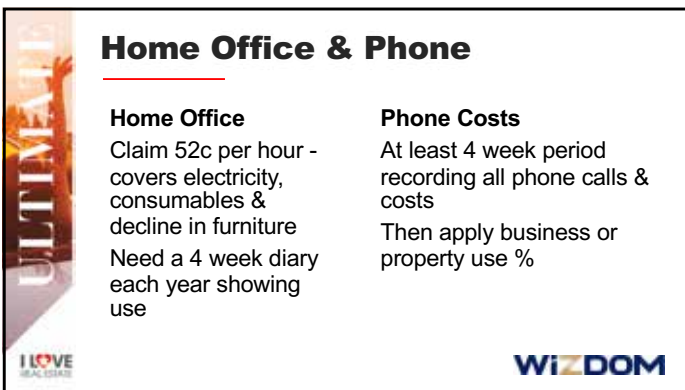


Scrapping

- Removal and disposal of depreciable assets
- Remaining value = instant tax deduction
- Must be an investment property until the asset is removed
- Can still apply to the building

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Home Office & Phone

<p>Home Office Claim 52c per hour - covers electricity, consumables & decline in furniture Need a 4 week diary each year showing use</p>	<p>Phone Costs At least 4 week period recording all phone calls & costs Then apply business or property use %</p>
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Home Office – Covid 19

For **all** running costs from 1 March to 30 June 2020


- Alternate method - 80c per hour
 - No dedicated area required
 - Multiple members of household can claim
- Includes depreciation on computer, printers & internet
- Cannot make separate claims under this method
- Traditional method may be better

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Travel & Car Costs



2 methods to claim car costs:

- Easiest method is the **cents per kilometre** – 68c
- **Must** keep a diary for every trip you make to the property throughout the year
- Other way is **Log Book**

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Travel

- Deductions for residential rental properties (Investors) denied
- Includes travel relating for inspecting, maintaining or collecting rent
- Will not prevent investors claiming expenses for engaging real estate agents for property management
- Travel does not form part of the cost base for CGT purposes


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Travel

- Can still claim if in the business of real estate
 - All is claimable or you could pay a travel allowance
- Travel costs can include flights, taxi, meals & accommodation



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Vacant Land Deductions

- From 1 July 2019 can no longer claim holding costs even if held prior to this date
- No claim for borrowing costs, interest, land tax, council rates, maintenance costs
- SMSF's, individuals, closely held trusts
- Applies to any land where there is no substantial, permanent and independent structure in use or available for use – constructing a future income-producing property
- Amounts are added to costs base for CGT

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Vacant Land Deductions

- A Substantial & Permanent building is one that is not incidental to the purpose of another structure and is not built for temporary purposes
- Can still claim holding costs if
 - Used in carrying on a business by the taxpayer or affiliate
 - Primary Producer who provides vacant land under lease, hire or license to another entity
- As new legislation some areas are still grey

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New Properties & Things to Remember

To Get Best Tax Deduction:

- Ensure borrowing costs aren't missed
- Get quantity surveyors report
- Provide settlement statement from solicitors
 - there will be rate/water adjustments

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New Properties & Things to Remember

Things that aren't a tax deduction:

- Legal Fees
- Searches & Fees
- Stamp duty

These will be added to cost of property when sold

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Selling a Property – ATO Requirements

- When selling a property over \$750,000 ATO will assume entity selling is a foreign resident
- This means the purchaser is required to withhold 12.5% of purchase price for the ATO
- **To avoid this**, the entity with legal title to the asset needs to obtain a clearance certificate from the ATO confirming they are a resident

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GST & Property

Depends on type of property:

- In the Business of Real Estate
- Residential property
- Commercial property/ Going Concern
- New constructions
- Major renovations

May all be treated differently!



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In the Business of Real Estate - GST

GST Basics

- ABN Per Entity
- Turnover threshold \$75,000 before GST is applicable

Are you running an enterprise?




- Regularity & Repetition
- Intention to make a profit
- A business plan exists
- Activities are systematic, organised & conducted in a business like manner & records are kept
- The entity has relevant knowledge or skills

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In the Business of Real Estate - GST

- Property developers no longer manage GST on sales of newly constructed residential property or new subdivisions
- Purchaser remits directly to the ATO
- If margin scheme applies - 7% of contract price
- Otherwise 1/11th of contract price

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GST & One-off Transactions

When do one-off transactions require GST registration?

- Do activities show **profit intention** clearly?
- If not goes to motive

Considerations of Motive

- Does it provide income or personal enjoyment? (Not a profit motive)
- Frequency of similar transactions
- Is it preparing asset for sale? Scale of activities






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10% Method or Margin Scheme

When does it apply:

- When you are selling a property
- Must be a business transaction (profit intention) on applicable properties e.g. on new residential or commercial
- You didn't claim GST on purchase
- Sold to you under the margin scheme or
- Seller wasn't GST registered or GST wasn't applicable
- Buyer and Seller need to agree in writing that the margin scheme will be used – **So put it in the contract of sale!**

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Residential Transactions & GST

Types of Residential Properties

- New residential
- Residential “off the plan”
- Existing Residential

What makes a property “new”?

- Never been sold as residential before
- Been created through “substantial” renovation
- New building replaces demolished building

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Residential Transactions & GST



On “new” property:

- Claim GST on purchases to sell new property (e.g. real estate fees)
- GST is applicable on the Sale
- OR apply the Margin Scheme

Off-the Plan:

- GST on purchase of property at settlement
- If “right” sold before settlement no GST applicable unless this was your intention

Existing Residential Property – no GST applicable

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What is a “substantial renovation”



Substantial renovations occur where all or substantially all of a building is removed or replaced. They must directly affect most rooms in the house.

Renovations can be structural & include:

- Foundations, Supporting Walls, Roof and Staircases etc

What isn’t a substantial renovation on its own:

- Replace wiring, Non-supporting walls, Plastering or rendering walls, Replacing kitchen & bathroom cupboards, Cosmetic e.g. painting, sanding floors, light fittings, curtains & carpets, Additions, Landscaping





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Commercial Property & GST

Commercial Properties are shops, factories & offices

If leasing these premises & your **turn-over** is more than \$75,000 you are **required** to register for GST & charge your tenants.



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Commercial Property & GST

Purchase of Commercial Property:

- If seller is registered for GST & you (the purchaser) intend to use building in your GST registered business you can claim GST credit on purchase
- If the seller applied the margin scheme you can't claim GST
- Most sellers use "going concern" & is sold GST free
 - Sale** - May be eligible for margin scheme
 - Going Concern

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Capital Gains Tax (CGT)

What is Capital Gains Tax?

- Capital Gains Tax is not a special tax rate
- Taxed at the taxpayer's marginal rate
- Capital losses can only be offset against capital gains
- CGT and GST are mutually exclusive, (except Commercial Property)

Discounts and Exemptions may apply

- Principal Place of Residence
- General Discount
- Small Business Concessions







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CGT & Principal Place of Residence

- What constitutes PPR or main residence?
- Can only have one PPR at a time
- PPR includes House & 2Ha or 5 Acres of land
- When is ownership? (contract date to contract date)
- Moving PPR from one to another - 6 month crossover period can be applied
- Continuing PPR Status (six year rule)
- PPR used partly as place of business - Any income producing activity may affect entitlement e.g Home Business, Rental etc.







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CGT & General Discount

To get the General Discount

- Must hold the asset for at least 12 months – contract date to contract date
- Companies are not eligible

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CGT & Small Business Concessions

Only available if being sold as part of a small business

15 year exemption

- Asset continuously owned for 15 years, over 55, retiring – no assessable gain

Active Asset

- 50% reduction in taxable gain – can be applied with general discount to reduce gain to 25%

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CGT & Small Business Concessions

Replacement Asset Rollover

- Use the proceeds to buy another active asset and only pay tax when the second asset is sold (2 years to buy the new asset)

Retirement Exemption

- \$500,000 lifetime cap, under 55's must pay into superannuation

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CGT & Inherited Property

Main Issue is when did deceased purchase property:

Pre 20 September 1985 (pre CGT)

- Pre CGT property left to beneficiary under Will is deemed to have been acquired on date of death of the deceased at market value.
- If sold within 2 years of death exempt from CGT

Post 20 September 1985 (post CGT)

- Post CGT property left to beneficiary under Will is deemed to have been acquired on same date that the deceased acquired it.

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CGT & Inherited Property

Death of a Joint Tenant

- Deceased persons interest in a property passes to the survivor by operation of law.
- Survivor deemed to have acquired the property on the same date the deceased acquired it.

Property awarded on Divorce

- Acquirer of the property is deemed to have acquired it on the same date as the spouse.


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CGT & Pre-CGT Assets

Building on Pre CGT Land:

- Building is treated as a separate asset
- Proceeds of sale of land and building are apportioned between the building and the land



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CGT & Subdivision

- Capital Gain occurs when you sell, not when you subdivide
- Relevant date for the subdivided blocks is the date you acquired the original parcel of land and the cost base of the original land is divided between the subdivided blocks on a reasonable basis
- If you subdivide the land on which your PPR sits, you will lose the PPR exemption for any block sold separate to the PPR

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ULTIMATE

CGT & Trusts

1. Trust offsets capital losses made against capital gain.
2. Then applies any discounts it may be eligible for.
3. Discounted gain is distributed to the beneficiaries who:
 - a. Gross up the gain,
 - b. Apply any personal capital losses they have against the capital gain
 - c. Reapply any of the discounts they are eligible for
 - d. Apply any revenue losses

Beneficiaries usually claim the same discounts as the trust.
 *Corporate beneficiaries and the general discount are a key exception to this rule

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