Super Concepts

Fact Sheet

$1.6 Million transfer balance cap

1 July 2017 super changes

From 1 July 2017, a 'transfer balance cap' applies to the value of pensions that can be transferred to retirement phase as well as those already in place at 30 June 2017. The general transfer balance cap is set at $1.6 million for the 2017/2018 financial year and limits the tax exemption on investments that support pensions in the fund. The cap is indexed to changes in CPI and increased in increments of $100,000.

Transition to retirement (TTR) pensions are not counted against the transfer balance cap, as income earned on investments supporting a TTR pension will be taxed in the fund from 1 July 2017 in the same way as accumulation balances.

Pensions included in the transfer balance cap

Pensions that are measured against the transfer balance cap include:

- account based pensions
- allocated pensions
- life time pensions
- life expectancy pensions
- market linked income streams
- non-complying or flexi pensions*
- superannuation annuities.

*subject to proposed amendments to the legislation

The value of each pension that is counted for transfer balance cap purposes is:

- for account based pensions – the account balance used to commence the pension,
- for lifetime pensions and annuities – the 'annual amount' multiplied by 16,
- for life expectancy or market linked pensions – the annual amount multiplied by a remaining term,
- for non-complying or flexi pensions it is a value determined under the SIS Act*.

TTR are not counted against the member's transfer balance cap as the earnings on the investments used to support them are no longer tax exempt from 1 July 2017.

Personal transfer balance cap versus the general transfer balance cap

Initially, an individual's personal transfer balance cap is equal to the general transfer balance cap for the financial year in which pensions commence or on 1 July 2017 for income streams in place at that time. Thereafter, an individual's personal transfer balance cap may subject to proportional indexation depending on the proportion of the cap that has been used in the past.

Example

On 1 July 2017 John commences an account based pension with a capital value of $1,200,000. On 1 July 2020 the general transfer balance cap is indexed up by $100,000 to $1,700,000. On 1 July 2020 John's personal transfer balance cap is $1,625,000. This is because on 1 July 2017 John used up 75% of his personal transfer balance cap, as a result he is only entitled to 25% of the indexed amount.

Transfer balance account

A transfer balance account is created when an individual commences their first superannuation income stream or on 30 June 2017 for members with existing income streams at that time. The transfer balance account is a running total and is counted against the individual's personal transfer balance cap. The Australian Taxation Office (ATO) administers the transfer balance account and any debits and credits to the account are reported to the ATO.

Credits against the transfer balance account

A member's transfer balance account is credited with:

- The value of all superannuation interests in retirement phase received by the individual on 30 June 2017 (TTR pensions are not included in this calculation)
- Any new income streams a person commences on or after 1 July 2017
- The value of any reversionary pensions payable to the individual as the result of the death of another on or after 1 July 2017
- Any death benefit income streams to which the person is entitled on or after 1 July 2017
- A proportional amount of certain limited recourse borrowing arrangements outstanding in the fund*
- Excess transfer balance earnings that accrue on transfer balance cap amounts.

*subject to legislation being passed

Only the initial capital value of an income stream is counted against the transfer balance cap. Subsequent earnings or losses on the account balance and pension withdrawals are not counted against the transfer balance cap.

Debits against the transfer balance account

A member's transfer balance account is debited with:

- Partial and full commutations of a pension (either transferred to accumulation phase or paid from the fund as lump sums)
- Full commutations of death benefit pensions
- Rollovers of a pension
- Structured settlement amounts
- Losses due to fraud being experienced against the fund
- Payments by the fund as required to be made under the bankruptcy legislation
- Family law payment splits
- Repayments of principal and interest on certain limited recourse borrowing arrangements*
- Super income streams that fail to comply with the standards.

*subject to legislation being passed

Pension payments made in the ordinary course of events are not treated as a debit against the member's transfer balance account, however, part or full commutations of a pension reduce a member's transfer balance account.

What happens if the transfer balance cap is exceeded?

If an individual exceeds their transfer balance cap, excess transfer balance earnings will accrue on the excess and credited to an individual's transfer balance account. The ATO will issue a transfer balance cap determination which will indicate the amount of the excess and the amount of earnings on the excess up to the date of the determination. The excess amount plus the earnings are required to be withdrawn from the fund within 60 days. The amount of the earnings is calculated as:

$$\frac{90\ day\ bank\ accepted\ bill\ yield + 7\%}{the\ number\ of\ days\ in\ the\ year}$$

Excess transfer balance earnings are calculated daily on the individual's excess transfer balance and are credited to the individual's transfer balance account until the ATO issues a determination.

Excess transfer balance earnings continue to be calculated until the pensions have been reduced to the required amount either by transferring it to accumulation phase or, withdrawing the amount from the fund as a lump sum.

Death benefit pensions and the transfer balance cap

Superannuation death benefits paid to beneficiaries are measured against the recipient's $1.6 million transfer cap if they are paid as income streams. It is the amount credited to the member's transfer balance account which is counted for these purposes. Death benefits paid as lump sums to dependants are not measured against the beneficiary's $1.6 million transfer balance cap.

Transition to retirement pensions

TTR pensions are not counted against the $1.6 million transfer balance cap as the income earned on assets, supporting TTR pensions, are taxed in the fund at 15% from 1 July 2017. TTR pensions in existence as at 30 June 2017 will not be measured against the transfer balance cap. However, on the pensioner reaching a full condition of release, such as retirement or reaching age 65, the balance at the time will be counted against the person's pension transfer balance cap.

Defined benefit income streams and the transfer balance cap

A defined benefit income stream is a pension, which is defined in terms of the particular pension, rather than based on the account balance supporting the pension. There are a number of types of defined benefit pensions, such as life expectancy pensions, lifetime pensions, market linked income streams and flexi pensions which all have different characteristics.

The general rule applying to the $1.6 pension transfer balance cap is modified in the case of a person receiving a defined benefit pension. The reason for the different treatment is that defined benefit pensions include rules which make it non-commutable, and therefore it is not possible to convert part or all of the defined benefit income stream to accumulation phase.

In determining how the value of the defined benefit pension is measured against the $1.6 million transfer balance cap, the value of the defined benefit pension is determined. The value is the annual pension multiplied by 16 for a lifetime pension or, in the case of a life expectancy pension, market linked pension or flexi pension the amount is the annual entitlement multiplied by the remaining term of the pension.

The value of defined benefit pension does not give rise to an excess transfer balance and it is measured first against the transfer balance cap. Where the aggregate of the defined benefit pension and any other pensions measured against the cap exceed $1.6 million, the excess caused by the other pensions is required to be commuted.

It is not possible for a defined benefit pension to create an excess for purposes of the transfer balance cap. However, from 1 July 2017 the taxation of defined benefit pensions received by a beneficiary will change and depend on whether they are paid from a taxed or untaxed source.

If the defined benefit pension has a taxed source, such as an SMSF, the first $100,000 p.a. is tax free, however, 50% of any amount in excess is taxed as ordinary income. If the defined benefit pension has an untaxed source, tax is payable at personal rates but the first $100,000 p.a. of the amount received is eligible for a tax offset equal to 10% of the paid pension. The maximum tax offset is therefore $10,000 (10% of $100,000). Amounts in excess of $100,000 p.a. are taxed as ordinary income and no tax offset is available.

More information

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