Transfer Balance Cap

What is the transfer balance cap?

New legislation effective from 1 July 2017 limits the total amount of superannuation assets that are held in retirement phase to support superannuation income streams.[1]

This transfer balance cap (set at $1.6m for the 2017-18 financial year and indexed thereafter), applies to each individual regardless of their number of accounts, and effectively limits the amount of earnings that are exempt from tax.[2]

What counts towards the transfer balance cap?

The following items count towards an individual's transfer balance cap:

- The value of all pension liability assets for a member on 30 June 2017.
- The value of new pensions commenced from 1 July 2017.
- The value of reversionary pensions.

What happens to members in account based pensions?

For members with total pension assets below the transfer balance cap, no action needs to be taken.

For members with pension balances in excess of the transfer balance cap, one of the following remedial actions must be undertaken:

- The excess amount must be transferred to an accumulation account; or
- The excess amount must be withdrawn out of the superannuation system.

What happens to defined benefit income streams and market linked pensions?

Defined benefit income streams and market linked pensions generally cannot be commuted or withdrawn as lump sums.

Therefore instead of remedial actions such as transfers or withdrawals that are available to account based pensions, defined benefit pensions are subject to assessable income caps on annual entitlements.

Special value of a superannuation interest

The value of the superannuation interest that supports a defined benefit income stream is called the 'special value' and acts as a credit against the member's available transfer balance cap.

This 'special value' is calculated by multiplying the annual entitlement by the product's remaining term (or by 16 in the case of a lifetime pension or annuity).[3]

> ***Example***
>
> *Bill has a market-linked pension entitlement of $120,000 for 2017-18 with a remaining term of 15 years. The 'special value' of his pension account is therefore $1.8 million (i.e. $120,000 multiplied by 15) which is in excess of the transfer balance cap.*

Defined benefit income cap

Annual entitlements of defined benefit products are assessed against the defined benefit income cap, which is equal to the transfer balance cap divided by 16 (or $100,000 for the 2017-18 financial year).[4]

50% of amounts in excess of the defined benefit income cap, that would otherwise be non-assessable, non-exempt income, are included as assessable income.

> ***Example***
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> *Bill's pension entitlement from the previous example exceeds the defined income cap by $20,000. This results in $10,000 (i.e. 50% of the excess) being considered assessable income and taxed at marginal tax rates.*

Further information

For further information please visit **www.cumsar.com.au** or contact Corey Plover on (03) 9642 2242.

[1] *Treasury Laws Amendment (Fair and Sustainable Superannuation) Act 2016*
[2] *Income Tax Assessment Act 1997*, subsection 294-35(3)
[3] *Income Tax Assessment Act 1997*, subsection 294-135(2) & (3)
[4] *Income Tax Assessment Act 1997*, subsection 303-4(1)