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QC 81448

Pension standards for self-managed super funds

How the pension standards apply to self-managed super funds (SMSFs) and the impact on new and existing pensions.

Last updated 15 June 2023

This information explains the pension standards that apply to self-managed super funds (SMSFs) in relation to account-based pensions – also known as a super income stream.

Read more about SD 2004/1 *Superannuation: can a self-managed superannuation fund provide a defined benefit pension?*

Account-based pensions

An account-based pension is an income stream paid from a super account held in the member's name. The amount supporting the pension must be allocated to a separate account for each member.

There are limited circumstances in which SMSFs can pay non-account-based pensions to members.

Pension commencement day

A pension's commencement day is the first day of the payment period. For example, if a pension is paid fortnightly, it will commence on day one of the 14-day payment period.

Funds generally determine the frequency of payments.

Example: commencement day of pension

On 1 August 2015, Kim starts a fortnightly pension from her SMSF and, in her capacity as trustee for the fund, keeps a record of this date.

The governing rules of the fund say that a pension will commence on the date agreed by the trustee to pay a pension to a member.

The commencement day of Kim's pension is 1 August 2015. However, the date of her first pension payment is 14 August 2015 which is the last day of the payment period.

Pensions commenced before 1 July 2007

For pensions that commenced before 1 July 2007, the SMSF must continue to pay them under the previous pension payment standards, unless the pension is an allocated pension.

For allocated pensions, the SMSF can choose to start paying under the minimum standards any time after 1 July 2007 without having to commute and start a new pension, provided this is permitted by the rules of your fund.

Pensions commenced between 1 July and 19 September 2007

Pensions that commenced between 1 July 2007 and 19 September 2007 may be paid under the previous or the new pension rules, provided this is permitted by the rules of your fund.

Pensions commenced on or after 20 September 2007

All pensions that commence on or after 20 September 2007 must meet the minimum pension standards.

Minimum pension standards

Pensions that SMSFs pay must satisfy all of the following minimum standards:

- The pension must be account-based, except in limited circumstances.
- You must pay a minimum amount at least once a year. From 1 July 2017, partial commutation payments do not count towards minimum annual pension payments.
- Once the pension has started, you cannot increase the capital supporting the pension using contributions or rollover amounts.
- Where a member dies, their pension can only be transferred to a dependant beneficiary of that member.
- You cannot use the capital value of the pension or the income from it as security for borrowing.
- Before you can fully commute a pension, you must pay a minimum amount in certain circumstances.
- Before you partially commute a pension, you must make sure there are sufficient assets to pay the minimum amount, if you haven't already done so.

All pensions that satisfy the minimum standards will generally be treated as super income stream benefits for income tax purposes. This means the fund may be able to claim an exemption for the income earned on pension assets, called an exempt current pension income (ECPI).

If the minimum pension standards are not met, the payments will not be treated as super income stream benefits.

Failing to meet the minimum pension payment standards for an income stream now not only means the fund loses ECPI for the income year, but that there are also transfer balance account consequences. These include:

- the credit that arose when the member started the income stream remains in the individual's transfer balance account

- the trustee must report to us the date that the super income stream ceases to be in the retirement phase for transfer balance cap purposes. This creates a debit in the individual's transfer balance account at that time. The value of that debit is the value of the super interest which that supports the income stream just before it stopped being a super income stream. In most cases, this will not equal the original credit, due to payments made over time

There are limited circumstances in which the Commissioner of Taxation's general administrative powers may allow a pension to continue even though the minimum pension standards have not been met. See **SMSFs: Minimum pension payment requirements – frequently asked questions**.

Find out about **withdrawing your super and paying tax**.

Read more about relevant superannuation law **LCR 2016/9** *Superannuation reform: transfer balance cap*.

How to calculate the minimum annual payment

The SMSF must pay a minimum amount each year to a member from their pension account.

The minimum annual payment amount is worked out by multiplying the member’s pension account balance by a percentage factor. The amount is rounded to the nearest 10 whole dollars. If the amount ends in an exact five dollars, it is rounded up to the next 10 whole dollars.

The following table shows the relevant percentage factor based on the member’s age. In response to the downturn in global financial markets, the government provided pension drawdown relief in 2008–09, 2009–10 and 2010–11. This relief was extended in 2011–12 and 2012–13. The minimum payment amount returned to normal in 2013–14.

Temporarily reducing superannuation minimum payment amounts

For the 2019–20, 2020–21, 2021–22 and 2022–23 income years, minimum superannuation payment requirements for account-based pensions and similar products were reduced by 50%. This reduction has not been extended for the 2023–24 income year and onwards.

Minimum percentage of account balance factors, by age

Age	2007–08 income year	2008–09 to 2010–11 income years (inclusive)	2011–12 and 2012–13 income years (inclusive)	2013– to 201 19 inc years (inclu
Under 65	4.0%	2.0%	3.0%	
65–74	5.0%	2.5%	3.75%	
75–79	6.0%	3.0%	4.5%	
80–84	7.0%	3.5%	5.25%	
85–89	9.0%	4.5%	6.75%	
90–94	11.0%	5.5%	8.25%	
95 or more	14.0%	7.0%	10.5%	

The member's age is determined at either:

- 1 July in the financial year in which the payment is made, or
- the commencement day of the pension or annuity, if that is the year in which it commences.

Account balance means one of the following:

- the pension account balance on 1 July in the financial year in which the payment is made
- the balance on the pension commencement day, if the pension commenced during the financial year
- the amount of the withdrawal benefit, if the amount of the pension account balance is less than the withdrawal benefit that the member would be entitled to if the pension were to be fully commuted.

Where the pension commences after 1 July, the minimum payment amount for the first year is calculated proportionately to the number of days remaining in the financial year, starting from the commencement day.

To calculate the minimum payment amount, multiply the minimum **annual** payment amount by the remaining number of days in the financial year and divide by 365 (or 366 in a leap year). This is expressed as:

> **Minimum payment amount** = minimum annual payment amount × (remaining number of days ÷ 365 (or 366)).

If the pension commences on or after 1 June in a financial year, no minimum payment is required to be made for that financial year.

Example: pension commences after 1 July

Thomas commences an account-based pension on 1 January 2016 at age 66. His pension account balance on the commencement day is $250,000.

The minimum annual payment amount would be $12,500 (5% of $250,000). However, as the pension commenced on 1 January 2016, the required minimum amount is calculated proportionately from the commencement day to the end of the financial year:

- $12,500 (minimum annual payment amount) × 182 (days remaining) ÷ 366 (2016 is a leap year) = $6,215.

The minimum payment required for 2015–16 is $6,220 ($6,215 rounded up to the nearest 10 whole dollars).

Example: pension commences after 1 June

Judy commences an account-based pension on 12 June 2015 at age 61.

There is no minimum payment required from the pension account for 2014–15 as the pension commenced after 1 June 2015.

What you need to do

As an SMSF trustee, you may need to amend your fund trust deed so that it meets the minimum pension standards. For more information on how to do this, talk to your legal adviser.

Record keeping

The fund's meeting minutes must record that a member has:

- requested to commence a pension
- met a condition of release.

Where one or more of your members is being paid a pension that commenced between 1 July 2007 and 19 September 2007, you also need to keep a record of their election to be paid a pension (under either the current or the former standards).

Electing to treat a pension payment as a lump sum

From 1 July 2017, you can no longer elect to treat the SMSF pension payments (that is, the periodic payments you receive) as lump sums for tax purposes. This election has been removed for everyone who is receiving a super income stream, including a disability income stream or transition-to-retirement income streams (TRIS).

This change means that, if you are receiving a super income stream, and have previously made this election, you no longer have access to the super lump sum low-rate cap for payments from your income stream. As you can no longer have tax free payments up to the low-rate cap, the amount of tax you have to pay on your super income stream may increase.

Commutations

Commutation generally refers to the process of converting a SMSF pension or annuity into a lump sum payment. This payment can be paid to the beneficiary, rolled over to another product within the same super fund, or rolled over to another super fund.

Each commutation is required to be reported to us as a transfer balance cap event on a transfer balance account report (TBAR). Find out more about **event-based reporting for SMSFs**.

Making a large pension drawdown (rather than partially commuting) does not reduce your transfer balance and would not bring you under your personal **transfer balance cap**. To reduce your transfer balance, you must commute an amount of your super income stream.

From 1 July 2017, a number of new super rules need to be considered when actioning a request to commute a pension:

- partial commutations no longer count towards the annual minimum pension payment amount
- where the commutation is for the full amount of the pension, trustees must ensure the minimum pension amount has been paid before actioning the commutation.
- where the commutation is only partial, trustees must ensure the minimum amount is paid before commutation, or that sufficient assets remain to meet the minimum pension payment standards for that year, based on the original value of the income stream at the start of the year.

The requirement to make a minimum payment prior to commutation does not apply where:

- the commutation arises on the death of a member, or
- the sole purpose of the commutation is to
  - pay a super contributions surcharge liability
  - give effect to a payment split under the family law provisions
  - give effect to a client’s right to return a financial product under the corporation's law provisions.

Full commutation

If a pension that commenced on or after 20 September 2007 is to be commuted in full, the SMSF must ensure at least a minimum amount is paid from the pension beforehand. This is because the pension ceases at the time the decision is documented to fully commute.

The minimum payment must occur in the same financial year as the commutation.

The amount paid must be at least the pro rata of the minimum annual payment amount.

For pensions commencing in the same financial year they are commuted, the pro-rata minimum annual payment amount is calculated using the number of days from the commencement day of the pension, to the day it is commuted.

Pro rata minimum payment amount = minimum annual payment amount × days from the commencement day to the day pension commuted ÷ 365 (or 366 in a leap year).

Example: full commutation in year pension commenced

David commences an account-based pension on 1 January 2016 at 58 years old. He decides to commute the pension on 30 May 2016, which is in the same financial year the pension began.

The account balance of the pension on 1 January 2016 is $235,000.

The first step is to determine the minimum annual payment for 2015–16. Based on the account balance at the commencement day of the pension, the minimum annual payment amount is $9,400 (4% of $235,000). However, as the pension commenced after 1 July 2015, the minimum payment amount is calculated proportionately from the commencement day to the end of the financial year:

- $9,400 (minimum annual payment amount) × 182 (the number of days from the commencement day of the pension to the end of the financial year) ÷ 366 (2016 was a leap year) = $4,674.31

Therefore, the minimum annual payment required for 2015–16 is $4,670 ($4,674 rounded down to the nearest $10).

The next step is to calculate the minimum payment prior to commutation. The number of days from the start of the pension (1 January 2016) to the day the pension is to be commuted (30 May 2016) is 151.

The pro-rata minimum payment amount for the pension will be $4,670 × (151 ÷ 366) = $1,926.69. Therefore, David must be paid at least a minimum amount of $1,926.69 (rounded to the nearest 10 whole dollars) prior to the commutation.

For commutations in subsequent years, the pro-rata minimum payment amount is calculated based on the number of days from the beginning of the financial year (1 July) in which the pension is commuted to the day the commutation takes place.

Pro-rata minimum payment amount = minimum annual payment amount × days from 1 July to day pension commuted ÷ 365 (or 366 in a leap year).

Example: full commutation in later year

John commences an account-based pension on 1 January 2016 at 58 years old. He decides to commute the pension on 31 July 2016 – which is not in the same financial year as the pension began.

The minimum payments were made from the fund during the first year, as required. The account balance of the pension on 1 July 2016 is $240,000.

The minimum annual payment amount from the pension in 2016–17 is $9,600 (4% of $240,000).

The number of days from the beginning of the financial year (1 July) to the day the pension is commuted is 31.

The pro-rata minimum payment amount for the pension will be $9,600 × 31 ÷ 365 = $815.34.

As no payments have been made from the pension in 2016–17, the fund must pay John a minimum amount of $815.34 prior to the commutation.

Partial commutation

A partial commutation of an SMSF account-based pension does not count towards the minimum pension payment.

Where the super income stream is partially commuted, the value of the super interest supporting the super income stream is reduced.

It is important that trustees prepare and keep records of all decisions made, including those in relation to member payments. These decisions must be documented before the payment is actually made. This is particularly important in relation to the type of payment being made (i.e. commutation or a pension payment).

Each commutation will need to be reported to us as a transfer balance cap event on a TBAR and for some trustees this may mean more events to report 28 days after the end of the quarter in which they happened.

At the time the partial commutation is made, the trustee will need to ensure that they have already satisfied the minimum pension requirements, or that sufficient assets remain to meet the minimum pension payment standards for that year, based on the original value of that income stream.

Payments can't be added to pension after commencement

Once a pension has begun to be paid to the member, the SMSF cannot accept or add further amounts to the capital from which the pension is being paid. This means the member’s pension account cannot be increased by contributions or rollover amounts.

Transfer of pension

If a member dies, the SMSF pension can only be transferred or paid to a person who is a dependant of the member, which includes:

- a surviving spouse or de facto spouse
- a child of the deceased who is under 18 years old
- a child of the deceased, aged between 18 and 25 years old, who was financially dependent on the deceased
- a child of the deceased, aged 18 years old or over, who has a permanent disability
- any person who relied on the deceased for financial maintenance at the time of their death
- any person who lived with the deceased in a close personal relationship where one or both of them provided financial and domestic support and personal care.

Capital value of pension can't be used as security for borrowings

When applying for loans, members cannot use the capital value of the pension or the income from it as security for borrowings.

Rules for pensions commenced before 1 July 2007

Super pensions which commenced before 1 July 2007, and complied with the pension rules at that time, must continue to be paid under the former rules unless it is an allocated pension. Super pensions include market-linked pensions, lifetime pensions and life expectancy pensions. These also include pensions commenced under the transition-to-retirement measure.

Allocated pensions

Allocated pensions which commenced before 1 July 2007 can operate under the new minimum pension standards from 1 July 2007 without the need to commute and restart a new pension. This may save the cost of moving to a new pension.

Example: allocated pensions

Janet commenced an allocated pension on 1 January 2007 which complied with the rules for allocated pensions at the time.

Janet decides to have her allocated pension operate under the minimum pension standards from 1 November 2007. Subject to the rules of the fund, Janet can do this without the need to commute and restart the pension. Therefore, the minimum payment standards will apply from 1 November 2007 and the minimum annual payment amount will be based on the pension account balance at 1 July 2007. Janet's fund will need to keep a record of Janet’s request to change the payment rules for her pension.

If Janet had continued the pension under the former rules, the minimum and maximum draw-down limits that applied to the allocated pension would have continued.

Complying pensions

Generally, complying super pensions (market-linked, lifetime and life expectancy pensions) which commenced before 1 July 2007 are not able to be commuted in order to start another pension to adopt the new pension rules.

An exception applies for existing complying pensions which were commuted on or after 20 September 2007 in order to purchase a market-linked pension. In these circumstances, the new minimum pension standards will apply to the new market-linked pension, in addition to the rules that normally apply to market-linked pensions.

Example: complying pensions

Robert commenced a market-linked pension on 1 March 2007 and continued to receive the pension after 19 September 2007 under the former rules.

On 1 December 2007, Robert decided to commute and roll over the residual balance of the pension to purchase a new market-linked pension. Robert must ensure that the rules for the pension meet the minimum payment standards as well as the rules that normally apply to market-linked pensions.

Changes to asset tests for market-linked pensions

As of 20 September 2007, newly purchased market-linked income streams (or term-allocated pensions) no longer had a 50% pension balance exemption from the Centrelink assets test.

Trustees need to have commenced the market-linked pension before the 20 September 2007 deadline if they wanted to receive the 50% asset exemption.

Transition to retirement

Transition-to-retirement income streams (TRIS) commencing on or after 1 July 2007 must satisfy the minimum pension standards.

In addition, pension payments must be restricted to a maximum of 10% of the pension account balance:

- as it stands at 1 July of each financial year

- at the commencement day of the pension.

Effective from 1 July 2017, the government removed the tax-exempt status of earnings from assets that support a TRIS that is not in the retirement phase. Earnings from assets supporting a non-retirement phase TRIS will be taxed at 15% regardless of the date the TRIS commenced.

Example: TRIS

Jill commenced a TRIS on 1 July 2008 when she was 57 years old. Her pension account balance on the commencement day was $300,000.

The minimum annual payment amount is $6,000 (2% of $300,000).

The maximum annual payment amount is $30,000 (10% of $300,000).

Accordingly, these minimum and maximum payment limits will apply to Jill's pension for 2008–09.

Pensions that commenced before 1 July 2007 and complied with the transition-to-retirement rules at the time are deemed to satisfy the new requirements and may continue to be paid under the former rules.

Read about **SMSF – transition-to-retirement income streams**.

QC 20142

SMSF minimum pension payment requirement and exception FAQs

FAQs on what happens if you don't meet the SMSF minimum pension payment requirement and when to apply the exception.

Last updated 27 June 2024

Who must satisfy the minimum pension payment requirement?

As the trustee of a self-managed super fund (SMSF), if a member starts an account-based pension, you must ensure it meets the **minimum pension standards** in the super laws. This includes meeting the **minimum pension payment requirement**. Generally, this means you are required to pay a minimum amount at least once a year.

This requirement also applies to complying super funds that started a super income stream as an allocated pension on or before 19 September 2007.

For more information see **temporarily reducing super minimum payment amounts**.

What happens if I do not meet the minimum payment requirement?

If you fail to meet the minimum pension payment requirements under the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations) for an income year (except where we allow an exception):

- the super income stream will be taken to have ceased at the start of the income year for income tax purposes
- we will treat you as not having paid a super income stream from the start of that income year
- payments you made during the year will be considered super lump sums for both tax and SIS Regulations purposes. This is the case even if you are entitled to receive a pension payment from the fund under its governing rules or general trust law
- If income from assets supporting the income stream was eligible to be treated as an exempt current pension income (ECPI) because the income stream was in retirement phase, the fund can't treat the income or capital gains as (ECPI) for the year.

From 1 July 2017, earnings from assets supporting a transition to retirement income stream (TRIS) are not eligible for ECPI if the income stream is not in the retirement phase. They will be taxed at 15%. This applies to all TRIS regardless of the start date.

For more information see relevant tax law TR 2013/5 *Income tax: when a superannuation income stream commences and ceases*.

Meeting the minimum pension payment requirement in subsequent years

The super income stream that failed to meet the minimum pension payment requirements can't restart meeting the requirements under the SIS Regulations in a future year.

To receive a super income stream for income tax purposes in future years, the income stream must cease (for example by commutation) and a new superannuation income stream must be started.

You must revalue the assets at market value and recalculate the minimum pension payment required at the start of the new super income stream.

You will also be required to recalculate the tax-free and taxable components of the new super income stream.

For more information see the relevant tax law TR 2013/5 *Income tax: when a superannuation income stream commences and ceases*.

Can the Commissioner allow an income stream to continue even if it does not meet the minimum pension standards?

In limited circumstances we may allow a super income stream to continue if the total payments for an income year are less than the minimum payment for the income stream. The exception generally only applies if all these conditions are met:

- You didn't pay the minimum pension amount in that income year because:
  - an honest mistake resulted in a small underpayment, or
  - there were matters outside of your control.
- If the income stream was in the retirement phase, the ECPI exemption would have continued if you had made the minimum payment.
- When you became aware the minimum payment wasn't made, you:

  - made a catch-up payment as soon as practicable in the current income year, or
  - treated a payment made in the current income year as being made in that prior income year.
- If you had made the catch-up payment in the prior income year, the minimum pension standards would have been met.
- You treat the catch-up payment, for all other purposes, as if it were made in the prior income year.

You can self-assess whether the conditions are met, provided you haven't applied the exception before for an income year.

If all conditions above are met:

- The super income stream is taken to have continued and a new pension is not started in the current income year. The proportioning rule doesn't need to be applied again to determine the tax free and taxable components.
- If the income stream was in the retirement phase, you can continue to claim a tax exemption for earnings on assets supporting that pension.
- Payments made during the prior income year are treated as super income stream benefit payments (pension payments) and not super lump sums.

If all these conditions are not met, the super income stream will be treated as having ceased at the start of the income year for income tax purposes.

From 1 July 2017, ECPI has been extended to deferred lifetime annuities. Although you can purchase an annuity today, the income stream starts several years later when you satisfy a condition of release. You must meet certain conditions for the annuity to be in retirement phase and claim ECPI.

For more information see **LCG 2016/9** *Superannuation reform: transfer balance cap*.

Does the exception apply to a TRIS?

The exception applies to all account-based income streams, including a transition to retirement income stream (TRIS).

From 1 July 2017, earnings from assets supporting a TRIS aren't eligible for ECPI if the income stream is not in retirement phase. They will be taxed at 15%. This applies to all TRIS regardless of the start date.

This means the ECPI component of the exception is not relevant for a non-retirement phase TRIS. However, there are other consequences for not meeting the minimum pension standards you should consider.

A TRIS is an account-based income stream if it has all of these characteristics:

- It requires a minimum annual payment.
- the account balance can't be added to by a contribution or roll-over.
- if the member dies, it can't be paid to a non-dependant beneficiary.

The exception may apply where you didn't pay the annual minimum pension amount, but the TRIS meets all the other minimum pension standards to be an account-based pension.

The exception doesn't apply to a TRIS if you have paid more than the maximum limit of 10% of the account balance.

For more information see SMSF TRIS.

Does the exception apply to allocated pensions that started before 19 September 2007?

The exception applies to allocated pensions that started before 19 September 2007 if they continue to be paid under the previous pension payment standards.

You can also consider applying the exception if you made a choice after 1 July 2007 to start paying the allocated pension under the new minimum pension standards (or account-based pension standards). The fund rules must allow the choice to operate under the new minimum pension standards. A new pension is not required.

For more information see pension standards for SMSFs.

How does the exception apply to an SMSF paying multiple pensions?

Where an SMSF pays more than one pension to one or more members, the minimum pension payment requirements must be met for each pension.

If you didn't meet the minimum pension payments for one or more pensions, you must consider the exception conditions for each pension.

Example: trustee did not meet minimum pension payment for one member's pension in an income year, but did for another

The fund has 2 members who both receive a pension:

- Member A gets Pension 1 and receives income greater than the minimum required.
- Member B gets Pension 2 and receives less than the minimum required.

Both pensions are in the retirement phase.

The trustee must ensure each pension meets the minimum payment requirements. The requirement is met for Pension 1 but not for Pension 2.

If all conditions are met, the exception can be applied for Pension 2. The fund will be treated as if it continuously paid Pension 2 despite the underpayment.

If the conditions are not met, Pension 2 will cease for income tax purposes and we will treat it as not having been paid from the start of the income year. The fund can't claim ECPI in relation to income from the assets supporting Pension 2.

Example: one member receives 2 pensions and trustee doesn't meet the minimum payment for

one pension, but does for the other

Member A is currently in receipt of 2 pensions from the fund. They have withdrawn well over the minimum required from Pension 1 but failed to meet the minimum pension required from Pension 2.

The trustee must ensure each pension meets the minimum payment requirements. It is irrelevant that the combined income received by Member A from the 2 pensions is more than the combined minimum payments required.

Subject to satisfying all conditions and despite the underpayment, the trustee may be able to apply the concession to treat the fund as having continuously paid Pension 2.

What is a small underpayment?

A small underpayment is one that doesn't exceed one-twelfth of the minimum pension payment in the income year.

For super income streams that start part-way through the year, a small underpayment is one-twelfth of the minimum annual pension payment amount and not the pro-rated amount.

If the underpayment exceeds one-twelfth, you need to write to us and explain why you couldn't make the minimum payment. Each case is considered on its own merits.

What does 'as soon as practicable' mean?

Generally, if the underpayment is due to an honest error, we consider 'as soon as practicable' is within 28 days after you become aware of the underpayment.

If the underpayment is due to matters outside your control, 'as soon as practicable' is within 28 days after you are in a position to be aware of the underpayment.

When can I apply the exception?

You can self-assess your eligibility for the exception, and apply the exception yourself, if all of the following apply:

- you have failed to meet the minimum pension requirements due to an honest mistake or matters beyond your control
- the underpayment is only small (it doesn't exceed one-twelfth of the minimum annual payment)
- all the other conditions are met
- you haven't previously applied the exception for another income year.

Example: trustee didn't meet minimum pension requirements for year ending 30 June due to a transposition error and this resulted in a small underpayment

The trustee can apply for the exception if all of the following are true:

- They made payments during the year and failing to meet the minimum payment requirements was an honest administrative error.
- The underpayment was small (it doesn't exceed one-twelfth of the minimum annual pension payment).
- They made a catch-up payment as soon as practicable, in the following income year.

If they meet all of these conditions, they can apply the exception. This means:

- the super income stream doesn't cease
- a new pension isn't started in the following year
- if the pension was in the retirement phase, they can continue claiming an income tax exemption for earnings on assets supporting that pension.

Example: trustee failed to meet minimum pension requirements for year ending 30 June due to jury duty case running longer than advised in the summons

The trustee can self-assess and apply the exception if all of the following true:

- They made payments during the year and failing to meet the minimum payment requirements was due to a circumstance outside of their control.
- The underpayment was small (it doesn't exceed one-twelfth of the minimum annual pension payment).
- They made a catch-up payment as soon as practicable, in the following income year.
- They haven't previously been granted the exception for failing to meet the minimum requirements.

If they meet all of these conditions, they can self-assess the entitlement to the exception to treat the SMSF as having continuously paid a super income stream.

Example: trustee incorrectly calculates minimum pension requirement

The trustee uses the incorrect minimum pension payment concession (50% instead of 25%) to calculate the July 2011 pension payment. This was the percentage used in the previous year and there was a delay in updating their computer system. This was an honest administrative error.

They need to assess if all the following apply:

- Payments were made during the year and failing to meet the minimum payment requirements by 30 June 2012 was due to an honest administrative error.

- The underpayment was small (it doesn't exceed one-twelfth of the minimum annual pension payment).
- They made a catch-up payment as soon as practicable, in the following income year.

If they meet all of these conditions, they can self-assess the entitlement to the exception to treat the SMSF as having continuously paid a super income stream.

Example: trustee travels overseas on short notice to attend to a business-related crisis and doesn't make June pension payment until next income year

The trustee can apply for the exception if all of the following are true:

- They made an honest mistake.
- The underpayment is small (it doesn't exceed one-twelfth of the minimum annual pension payment).
- They always met minimum pension payment requirements in the past.
- They made a catch-up payment as soon as practicable.

If they satisfy all of these conditions, they can apply the exception to treat the SMSF as having continuously paid a super income stream.

In all other cases, you will need to write to us and ask us if we will apply the exception.

What happens if I do not meet the minimum payment requirement for multiple years?

If you have applied the exception in the past (by self-assessing that these conditions are met), you can't apply it again. You will need to write to us and ask us if we will make an exception.

For us to consider the circumstances of your case, explain to us in writing why you didn't meet the requirements. We will determine if the exception can be applied.

When will I need to request that the Commissioner apply the exception?

You can request in writing that we apply the exception if you:

- haven't met all the above conditions to self-assess and apply the exception
- have previously, through self-assessment or at the Commissioner's discretion, applied the exception.

You need to write to us, provide evidence and explain why you didn't meet the minimum pension payment requirements. Each case is considered on its merits.

Include the following information with your request:

- details for all pensions paid by the fund during the relevant income year the underpayment was made including the
  - recipient member
  - type of pension – for example, account-based, allocated or market-linked
  - minimum pension amount and minimum percentage factor
  - actual amount paid and shortfall amount, if relevant
- date each shortfall was identified
- how each shortfall was identified
- detailed reasoning regarding why the shortfall occurred
- evidence showing
  - the catch-up payments paid from the fund's account to the members
  - receipt of each catch-up payment by the members

  - the fund had sufficient liquidity on 30 June to have otherwise met the minimum pension amounts required
- if the fund previously failed to meet its minimum pension requirements, provide details of the underpayment and whether the trustees self-assessed or applied for the Commissioner's discretion
- outline the mechanisms put in place by the trustees to ensure minimum pension requirements will be satisfied in future income years
- the amount of tax in contention – this is the difference between the tax position if the Commissioner
  - doesn't consider the fund to have satisfied its minimum pension requirements, and
  - considers the fund to have satisfied its minimum pension requirements.

To make a request, write to us at:

Australian Taxation Office
PO Box 3100
PENRITH NSW 2740

To ensure a fair and reasonable outcome in each case, we make decisions in accordance with the **Taxpayers' charter**, **compliance model** and the good decision-making model. The good decision-making model requires decisions to be legal, ethical, overt, sensible, timely and in accordance with the principles of natural justice.

Example: trustee is overseas and doesn't make annual pension payment until following income year

We would consider that this isn't a small underpayment as it exceeds one-twelfth of the minimum annual payment.

This is not a case where we would ordinarily apply the exception. The trustee needs to provide details demonstrating that matters outside of their control affected their ability to meet the requirements.

We will then consider whether the other conditions for the exception can apply. Each case is considered on its own merits.

Example: minimum payment requirements were not met due to factors outside trustee's control

Both members of a 2 member SMSF are injured in a car accident just before the final pension payment for the relevant year. They were both incapacitated and spent extended periods in hospital recovering.

They were unable to make the payment before 30 June. The payment is made in August of the following income year.

In this case, we would consider all the following to determine whether to allow the exception:

- The pension would have continued if the minimum amount had been paid.
- The catch-up amount was made as soon as practicable and the trustee treats it as if it were made in the prior income year.
- The circumstances were out of the trustee's control.

Example: cheque is dishonoured

A trustee wrote a cheque for the pension payment but it was dishonoured.

We can't apply the exception because this action was not beyond the trustee's control. In an SMSF, trustees are responsible for running the fund. They are expected to ensure there are sufficient funds in the bank account so the cheque payment would be honoured.

The minimum pension requirement would not be satisfied in the relevant year. The super income stream will be taken to have ceased at the start of that income year for income tax purposes.

Example: insufficient liquid funds on 30 June

A trustee wrote a cheque for the minimum annual pension payment on 30 June and issued it to the member on the same day. As of 30 June, the SMSF doesn't have sufficient available funds to make the payment to the member but will have the funds when a term deposit, held by the SMSF, matures on 31 July. The member presents the cheque on 1 August. The cheque is subsequently honoured.

The lack of available funds on 30 June indicates that the trustee doesn't intend to immediately transfer funds from the SMSF to the member when the cheque is issued. In this case, the pension payment is not made on 30 June but rather 1 August of the following income year.

The minimum pension requirement would not be satisfied in the relevant year. The trustee would need to demonstrate that matters outside of their control affected their ability to meet the minimum pension requirements. Only then can we consider whether other exception conditions can apply.

Example: electronic funds transfer on 30 June falls on a weekend

A trustee arranged for an electronic transfer for the minimum annual pension payment on 30 June, which was on a weekend.

Payment using an electronic funds transfer is made when it is received by the member. Where it is processed overnight or later, the Commissioner's view is that it is made on or after 1 July in the following income year.

The minimum pension requirement would not be satisfied. The trustee needs to demonstrate that matters outside of their control affected their ability to meet the requirements. Only then can we consider whether the other conditions relevant to the exception can apply.

Where there is a simultaneous debit and credit of the SMSF’s and member's accounts linked at the same institution and the funds are available immediately for use by the member, the pension payment is made on 30 June.

The trustee must provide evidence such as a receipt of the amount into the member’s account to establish the timing of the payment.

Example: financial institution error

We may consider applying the exception if the trustee can demonstrate:

- they took all reasonable steps to ensure the pension payment would be processed before 30 June
- something outside their control prevented the payment being made.

Can I record the underpayment of the pension as an accrual in the fund's accounting records?

No. To meet the minimum pension standards, you must meet the minimum payment requirements. It is not enough for the pension rules to state a payment will be made each year if a payment is not actually made in that year.

If you do not make the minimum payment in an income year, the pension will be treated as having ceased at the start of that income year for tax purposes unless the exception applies.

This is the case even if:

- the member is entitled to receive a payment from the super fund for the income stream under the governing rules or general trust law concepts
- you record the underpayment as an 'accrual' to recognise that liability.

The exception allows you to make a catch-up payment in a following income year to satisfy the SIS Regulations for the year of the underpayment. This means you must:

- treat the catch-up payment as if it were made in a prior income year for all purposes
- account for the payment as an 'accrual' in the underpayment year to reflect that it is not included in the pension payments for the income year the catch-up payment is made.

When does the exception for underpayments apply?

The exception to allow a super income stream to continue if it doesn't meet minimum payment requirements, applies to underpayments on or after 1 July 2007.

QC 39769

Timing of a pension payment

A summary of the ways in which an SMSF typically pay benefits to a member.

Last updated 22 March 2017

To ensure that the pension standards for self-managed super funds (SMSFs) are met, it is important that you, as fund trustee, consider the time that a member's benefit is cashed (that is, 'paid'). As a general rule, a benefit is cashed when the member receives an amount and the member's benefits in the SMSF are reduced.

Ruling TR 2010/1 outlines our view on how and when a contribution is made. This view is equally relevant when considering how and when a benefit payment is made from a SMSF.

See also:

- Pension standards for self-managed super funds
- TR 2010/1

The table below summarises the ways in which benefits are typically paid to a member from an SMSF and when we consider the pension payment to have been made.

Way funds are transferred to member	When pension payment is considered made
Cash payment (either in Australian or foreign currency) to the member	When the member receives the cash.
Electronic transfer of funds to the member	When the funds are credited to the member's account.
By money order or bank cheque	When the member receives the money order or bank cheque (unless the order or cheque is dishonoured).
By cheque (other than one that is post-dated) that is presented and honoured with cash or its electronic equivalent	When the member receives the cheque (as long as it is presented promptly and is honoured).
By post-dated cheque that is presented and honoured with cash or its electronic equivalent	When the cheque can be presented for payment (that is, the date on the cheque), as long as it is presented promptly and is honoured.
By transfer of an asset to the member under a partial commutation	When the member obtains beneficial ownership of the asset from the SMSF trustee.

Benefits cannot be cashed with a cheque that is not honoured with an actual payment of money or transfer of benefits from the fund.

> Example: Electronic funds transfer on 30 June
>
> ---
>
> The payment of a benefit using an electronic funds transfer is made when an amount is received by the member.
>
> Where the trustee of a SMSF arranges an electronic funds transfer for the minimum annual pension payment on 30 June and it is processed overnight or later, the pension payment will be treated as made on or after 1 July of the following income year. The pension standards may not be satisfied in the relevant year.
>
> Where there is a simultaneous debit and credit of the SMSF's and member's accounts linked at the same institution and the funds are available immediately for use by the member, the pension payment is made on 30 June. Evidence such as a computer print-out recording the receipt of the amount into the member's account may be used to establish the timing of the payment.

If the financial year end falls on a weekend or public holiday, trustees are expected to ensure that all pension payments are made prior to 30 June.

See also:

- TR 2010/1
- SMSFD 2013/2

QC 39770

Exempt current pension income method checklist

Determine the correct method to calculate Exempt current pension income (ECPI) for your fund.

Last updated 12 April 2022

Use this checklist when you need to determine the correct method to calculate Exempt current pension income (ECPI) for your fund.

Calculate ECPI for 2021–22 and future income years

Follow the steps below to determine the correct method to calculate ECPI for your fund for the 2021–22 and future income years.

Determine the correct method to calculate ECPI for 2021–22 and future income years

Steps	Go to
1. Were all of the fund's assets held solely to support retirement phase income streams at ALL times during the income year?	• Yes. Go to method A • No. Go to step 2
2. Did the fund have **Disregarded Small Fund Assets** by meeting all of the following criteria: • have at least one retirement phase income stream at any time of the year • have a fund member with a total super balance over $1.6 million immediately before the start of the relevant income year; and • did that member receive a retirement phase income stream from any fund (not necessarily this SMSF)?	• Yes. Go to method B • No. Go to step 3
3. Did the fund segregate their assets to pay retirement phase pensions? This includes where the fund held all of its assets in retirement phase pensions at any time during the year, or where the fund otherwise segregated their assets	• Yes. Go to method C • No. Go to step 4

4. Did the fund pay a retirement phase income stream without segregating their assets?	• Yes. Go to method B • No. Go to method D

Methods for 2021–22 and future income years

Methods for 2021–22 and future income years

Method	How to calculate ECPI
A	The fund must calculate ECPI using the **segregated method** where it is in 100% retirement phase for all of the income year. Note – The **disregarded small fund assets rule** does not apply to these funds. An actuarial certificate will not be required when the fund is using the segregated method unless the retirement phase income stream paid is NOT one of the following: • allocated pensions • market-linked pensions • account-based pensions
B	The fund must calculate ECPI using the **proportionate method** when they: • have no segregated current pension assets • have disregarded small fund assets. Funds using the proportionate method will need an actuarial certificate for each year they claim ECPI, regardless of the type of retirement-phase income stream being paid.

C	The fund can choose to use the **proportionate method** to calculate the ECPI for the entire income year. If no choice is made, ECPI will be calculated using the segregated method for the period of segregation.
D	By selecting **No** at steps 1, 3 and 4 you have determined that none of the fund's assets were used to support retirement phase income streams. Therefore, the fund is not eligible for ECPI. If this is not correct, go back to step 1.

Calculate ECPI for 2017–18 to 2020–21 income years

Follow the steps below to determine the correct method to calculate ECPI for your fund for the 2017–18 to 2020–21 income years.

Determine the correct method to calculate ECPI for the 2017–18 to 2020–21 income years

Steps	Go to
1. Did the fund have **disregarded small fund assets** by meeting all of the following criteria: • have at least one retirement-phase income stream at any time of the year • have a fund member with a total super balance over $1.6 million immediately before the start of the relevant income year • did that member receive a retirement phase income stream from any fund (not necessarily this SMSF)?	• Yes. Go to method B • No. Go to step 2
2. Were all of the fund's assets held solely to support retirement phase income streams at all times during the income year?	• Yes. Go to method A • No. Go to step 3

3. Were all of the fund's assets held to support retirement phase income streams at any time during the income year? Or did the fund otherwise segregate their assets to pay retirement phase income streams?	• Yes. Go to method C • No. Go to step 4
4. Were some but not all of the fund's assets held to support retirement phase income streams at any time during the income year?	• Yes. Go to method C • No. Go to method D

Methods for 2017–18 to 2020–21 income years

Methods for 2017–18 to 2020–21 income years

Method	How to calculate ECPI
A	The fund must calculate ECPI using the **segregated method** for any portion of the income year where it is in 100% retirement phase and does not have disregarded small fund assets or if they segregated assets. An actuarial certificate will not be required when the fund is using the segregated method unless the retirement phase income stream paid is NOT one of the following: • allocated pensions • market-linked pensions • account-based pensions.
B	The fund must calculate ECPI using the **proportionate method** when they: • have no segregated current pension assets • have disregarded small fund assets.

	Funds using the **proportionate method** will need an actuarial certificate for each year they claim ECPI, regardless of the type of retirement-phase income stream being paid.
C	The fund may need to use a **combination of methods** A and B if it becomes 100% in retirement phase within the same income year it has used the proportionate method. In these circumstances, they must: • use the segregated method for any period the fund had segregated their assets to pay retirement phase pensions (including any time where the fund had 100% of its assets supporting retirement phase pensions) • use the proportionate method for any other period.
D	By selecting **No** at steps 2, 3 and 4, you have determined that none of the fund's assets were used to support retirement phase income streams. Therefore, the fund is not eligible for ECPI. If this is not correct, go back to step 1.

QC 69231

Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.