

# ***LCG 2016/9 - Superannuation reform: transfer balance cap***

⚠ This cover sheet is provided for information only. It does not form part of *LCG 2016/9 - Superannuation reform: transfer balance cap*

⚠ This document is being updated to reflect changes made by The Treasury Laws Amendment (2017 Measures No. 2) Act. Of particular note are changes to the LCG to reflect the new transfer balance credit arising from the repayment of a limited recourse borrowing arrangement and changes to the treatment of transition to retirement income streams.

The updated LCG is being issued as a draft for public comment. The comment period ends on 27 October 2017. A version with the tracked changes is available for [download](#).

⚠ This document has changed over time. This is a consolidated version of the ruling which was published on *10 March 2017*



## Superannuation reform: transfer balance cap

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### Relying on this Guideline

This Guideline is a public ruling for the purposes of the *Taxation Administration Act 1953*.

This Guideline describes how the Commissioner will apply the amendments made by the [Treasury Laws Amendment \(Fair and Sustainable Superannuation\) Act 2016](#) to entities that rely on it in good faith.

If you rely on this Guideline in good faith, you will not have to pay any underpaid tax, penalties or interest in respect of matters covered by the Guideline if it does not correctly state how a relevant provision applies to you.

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### **What this Guideline is about**

1. When an individual accesses their superannuation (for example, because they have retired), they may take it in the form of a superannuation lump sum, a superannuation income stream (such as a pension), or a combination of the two.
2. If they commence a superannuation income stream, income earned on the ongoing investment of the capital (the superannuation interest) that supports the superannuation income stream is exempt from tax. This exemption applies to the superannuation income stream provider.
3. The *Treasury Laws Amendment (Fair and Sustainable Superannuation) Act 2016* (the Act) imposes a transfer balance cap from 1 July 2017 to limit the amount of capital individuals can transfer to the retirement phase to support superannuation income streams. This, in turn, limits the amount of superannuation income stream provider earnings that are exempt from tax.
4. This Guideline provides guidance on how the transfer balance cap (set at \$1.6 million for the 2017-18 financial year) operates for account-based superannuation income stream products.
5. It provides specific guidance on the following new concepts:
  - the general transfer balance cap, your transfer balance account, your transfer balance and your personal transfer balance cap (**your transfer balance cap**)
  - the consequences of your transfer balance exceeding your transfer balance cap, resulting in an 'excess transfer balance' including:
    - the excess transfer balance tax and how this is calculated
    - when the Commissioner will issue an excess transfer balance determination (**determination**), and
    - the effect of transfers and/or commutations on your transfer balance.
6. Special rules apply to capped defined benefit income streams.<sup>1</sup>
7. All legislative references are to the *Income Tax Assessment Act 1997* unless otherwise stated.

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<sup>1</sup> Refer to LCG 2016/ D10 *Superannuation reform: defined benefit income streams - non commutable, lifetime pensions and lifetime annuities* and LCG 2017/D1 *Superannuation reform: defined benefit income streams - pensions or annuities paid from non-commutable, life expectancy or market-linked products* for further guidance on these rules.

### **Transfer balance account and transfer balance cap**

8. The Act introduces the concepts of a transfer balance account,<sup>2</sup> transfer balance,<sup>3</sup> the general transfer balance cap<sup>4</sup> and a personal transfer balance cap.<sup>5</sup>
9. The purpose of your transfer balance account is to track the amounts you have transferred to the retirement phase. Your transfer balance allows you to determine whether or not you have exceeded your transfer balance cap on any given day.
10. [Omitted.]

### **Transfer balance account**

11. You commence to have a transfer balance account on the later of 1 July 2017 and the day you first start to be a retirement phase recipient of a superannuation income stream. If you are a retirement phase recipient of a superannuation income stream just before 1 July 2017 (at the end of 30 June 2017), your transfer balance account commences on 1 July 2017.<sup>6</sup>
- 11A. You are a retirement phase recipient of a superannuation income stream at a time if:
- (a) the superannuation income stream is in the retirement phase at that time,<sup>7</sup> and
  - (b) a superannuation income stream benefit from the superannuation income stream is payable (that is, an entitlement to be paid commences) to you at that time<sup>8</sup> or, if the income stream is a deferred superannuation income stream, the benefit will become payable to you after that time.<sup>9</sup>
12. You continue to have a transfer balance account even if you subsequently cease to be a retirement phase recipient of a superannuation income stream. You only cease to have a transfer balance account when you die.<sup>10</sup>
13. Subject to paragraph 15 of this Guideline, a superannuation income stream is in the retirement phase when a superannuation income stream is currently payable.<sup>11</sup> If it is a deferred superannuation income stream<sup>12</sup>, that income stream is in the retirement phase when a person has met a relevant condition of release (retirement, terminal medical condition, permanent incapacity or attaining age 65).<sup>13</sup>
14. [Omitted.]
15. Transition to retirement income streams (TRIS) are not included in your transfer balance account as they are not in the retirement phase.<sup>14</sup> From 1 July 2017, superannuation income stream providers will be taxed on earnings made from assets supporting a TRIS.<sup>15</sup>

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<sup>2</sup> Section 294-15.

<sup>3</sup> Subsection 294-30(2).

<sup>4</sup> Subsection 294-35(3).

<sup>5</sup> Subsections 294-35(1) and (2).

<sup>6</sup> Subsection 294-15(2).

<sup>7</sup> Paragraph 294-20(1)(a) and section 307-80.

<sup>8</sup> Paragraph 294-20(1)(b).

<sup>9</sup> Subsection 294-20(2).

<sup>10</sup> Section 294-45. There are special rules that apply in the case where a superannuation income stream is payable to a dependent child beneficiary – see Subdivision 294-E.

<sup>11</sup> Section 307-80.

<sup>12</sup> Subsection 995-1 – it has the meaning given by the *Superannuation Industry (Supervision) Regulations 1994*.

<sup>13</sup> Subsection 307-80(2).

<sup>14</sup> Subsection 307-80(3).

<sup>15</sup> Schedule 8 of the Act removes the earnings tax exemption in respect of TRIS.

15A. The age pension (or other types of government assistance payments) and a pension received from a foreign superannuation fund are also not included in your transfer balance account because these pensions are not superannuation income streams.<sup>16</sup>

### **General transfer balance cap and personal transfer balance cap**

15B. When you commence to have a transfer balance account, you will also commence to have a personal transfer balance cap. Your transfer balance cap limits the total amount of capital you can transfer to the retirement phase to support superannuation income streams.

16. Your transfer balance cap will initially be equal to the general transfer balance cap for the financial year that you begin to have a transfer balance account.<sup>17</sup> The general transfer balance cap is \$1.6 million for the 2017-18 financial year and is subject to indexation in subsequent years.<sup>18</sup>

17. Your transfer balance cap is subject to proportional indexation<sup>19</sup> in line with increases in the general transfer balance cap. However, if your transfer balance has ever equalled or exceeded your transfer balance cap at the end of a day, you will permanently lose your entitlement to increase your transfer balance cap by indexation in future years.<sup>20</sup>

18. [Omitted.]

19. [Omitted.]

### **Transfer balance**

20. Your transfer balance at a time is the sum of your transfer balance credits less the sum of your transfer balance debits at that time.<sup>21</sup> Your transfer balance can be less than zero.

21. If your transfer balance exceeds your transfer balance cap at the end of a particular day, you have an excess transfer balance.<sup>22</sup> The consequences of having an excess transfer balance are explained further in paragraph 78 of this Guideline.

22. If you are receiving a superannuation income stream immediately before 1 July 2017 (end of 30 June 2017), your transfer balance account commences on 1 July 2017. Your transfer balance account is credited with the value of the superannuation interest that supports the superannuation income stream just before 1 July 2017 (end of 30 June 2017).<sup>23</sup>

23. Where you have more than one superannuation income stream provider just before 1 July 2017 (end of 30 June 2017), your transfer balance will be the sum of the value of all of your superannuation interests supporting superannuation income streams just before 1 July 2017 (end of 30 June 2017).

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<sup>16</sup> See section 307-5 and section 307-10 meaning of 'superannuation benefit', section 307-70 meaning of 'superannuation income stream' and section 307-80 meaning of 'superannuation income stream in the retirement phase'.

<sup>17</sup> Subsection 294-35(1). The exception to this is child recipients of death benefit income streams, see Subdivision 294-E for those modified rules.

<sup>18</sup> Subsection 294-35(3), section 960-265 and section 960-285.

<sup>19</sup> Subsection 294-40.

<sup>20</sup> Paragraph 294-40(1)(b) and the meaning of 'unused cap percentage' in subsection 294-40(2).

<sup>21</sup> Subsection 294-30(2).

<sup>22</sup> Subsection 294-30(1).

<sup>23</sup> Item 1 in the table in subsection 294-25(1). Special rules apply if you are a reversionary beneficiary which may cause the credit to arise at a later point in time.

**When debits and credits do not arise in your transfer balance account**

24. Once a superannuation income stream has commenced and a credit arises in your transfer balance account, subsequent changes in the value of the supporting superannuation interest do not affect your transfer balance.

24A. That means a superannuation interest that supports a superannuation income stream that increases in value because of investment earnings<sup>24</sup> does not have its growth reflected in your transfer balance account. Similarly, a superannuation interest that supports a superannuation income stream that decreases in value because of investment losses<sup>25</sup> or a drawdown of superannuation income stream benefits does not have that reduction reflected in your transfer balance account.

24B. This is because investment earnings and losses in respect of the superannuation interest supporting your superannuation income stream and amounts paid to you to comply with the minimum drawdown requirements are not debit or credit events.

25. Consequently, making a large pension drawdown does not reduce your transfer balance and would not bring you under your transfer balance cap. You must commute an amount of your superannuation income stream in order to reduce your transfer balance so that you no longer exceed your transfer balance cap. Commutations are discussed further in paragraph 41 of this Guideline.

**Example 1 – Transfer balance account credits and debits**

26. On 1 July 2018, 61 year old Darius commences an account-based pension (pension A) with a \$1.1 million value. His transfer balance account commences on this date.

27. Investment returns and payments made to Darius to meet minimum drawdown requirements change the value of the superannuation interest supporting his pension. Because of this, the value of his superannuation interest at 1 July 2019 is \$1.05 million. These changes, however, do not cause a credit or debit to arise in his transfer balance account and his transfer balance remains \$1.1 million.

28. On 1 July 2020, Darius decides that he is unhappy with the investment returns from his provider and instructs his superannuation fund to fully commute his pension.

29. Darius' superannuation fund commutes pension A on 7 July 2020 to a superannuation lump sum of \$1 million on that day. Accordingly, a debit equal to this amount arises in his transfer balance account on this day.

30. The following table details Darius's transfer balance account and the debits and credits arising from the above transactions.

| <b>Transfer balance account</b> |                    |              |               |                         |
|---------------------------------|--------------------|--------------|---------------|-------------------------|
| <b>Date</b>                     | <b>Description</b> | <b>Debit</b> | <b>Credit</b> | <b>Transfer balance</b> |
| 1 July 2018                     | Commence pension A |              | \$1.1 million | \$1.1 million           |
| 7 July 2020                     | Commutes pension A | \$1 million  |               | \$0.1 million           |

<sup>24</sup> Such as capital gains, interest and dividends.

<sup>25</sup> Such as capital losses.

### **Credits that arise in your transfer balance account**

31. Section 294-25 sets out when credits arise in your transfer balance account and the amount of the credit. A credit may arise in your transfer balance account from:

- you becoming a retirement phase recipient of a superannuation income stream<sup>26</sup>
- notional earnings that accrue on excess transfer balance amounts.<sup>27</sup>

### **Credit amounts for reversionary beneficiary and death benefits**

32. Section 294-25 refers to a 'reversionary beneficiary'. A reversionary beneficiary is the nominated dependant beneficiary of a superannuation income stream that automatically reverts to the nominated beneficiary on the death of the superannuation income stream recipient (member). In these cases, the superannuation income stream does not cease, as the reversionary beneficiary is immediately entitled to receive it.

32A. If the superannuation income stream provider has any discretion about which beneficiary becomes entitled to the superannuation income stream then it is not reversionary, and the beneficiary is not a reversionary beneficiary.<sup>28</sup>

33. The 'starting day' (for the purposes of the transfer balance account) for reversionary beneficiaries is the date of death of the original superannuation member as this is the time the reversionary superannuation income stream becomes payable to them.

34. The credit that arises in the reversionary beneficiary's transfer balance account, however, is delayed to provide the beneficiary with time to arrange their affairs. For a reversionary beneficiary, the credit arises:

- (a) if the reversionary beneficiary is a retirement phase recipient of the superannuation income stream just before 1 July 2017 – on the later of 1 July 2017 or 12 months from when the superannuation income stream first became payable. The credit is equal to the value of the superannuation interest supporting that superannuation income stream just before 1 July 2017, or
- (b) if the reversionary beneficiary starts to be a retirement phase recipient on or after 1 July 2017 – 12 months from the starting day. The credit is equal to the value of the superannuation interest supporting that superannuation income stream on the starting day.

34A. See LCG 2017/D3 *Superannuation Reform: Transfer Balance Cap - Superannuation death benefits* for more detailed guidance on reversionary beneficiaries and death benefit income streams.

### **Example 2 – Reversionary beneficiary**

35. *John has a reversionary pension worth \$1 million at the time of his death on 1 August 2017.*

36. *Heather is John's wife and is the reversionary beneficiary of this pension.*

37. *As Heather is a reversionary beneficiary, the starting day for the purpose of section 294-25 is the date of John's death, 1 August 2017.*

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<sup>26</sup> Item 1 and item 2 in the table in subsection 294-25(1).

<sup>27</sup> Item 3 in the table in subsection 294-25(1).

<sup>28</sup> This is consistent with Taxation Ruling TR 2013/5 *Income tax: when a superannuation stream commences and ceases*.

38. A credit arises in Heather's transfer balance account on 1 August 2018 (12 months from the starting date). The credit amount is \$1 million, which is equal to the value of the superannuation interest on the starting day being 1 August 2017.

39. [Omitted.]

### **Debits that arise in your transfer balance account**

40. Section 294-80 sets out when debits arise in your transfer balance account, and the amount of the debit. A debit may arise in your transfer balance account from:

- a commutation of a superannuation income stream in the retirement phase<sup>29</sup>
- structured settlement contributions<sup>30</sup>
- an event that results in your superannuation interest being reduced (fraud or dishonesty; bankruptcy)<sup>31</sup>
- a payment split (divorce or relationship breakdown)<sup>32</sup>
- a superannuation income stream failing to comply with the pension or annuity standards under which it is provided<sup>33</sup>
- a superannuation income stream provider failing to comply with a commutation authority in respect of a particular superannuation income stream<sup>34</sup>
- a notice being issued under section 136-70 in Schedule 1 to the *Tax Administration Act 1953* (TAA) in relation to a non-commutable excess transfer balance.<sup>35</sup>

### **Commutation**

41. A commutation of a superannuation income stream occurs where the member consciously and validly exercises their right to exchange some or all of their entitlement to receive future superannuation income stream benefits for an entitlement to be paid a superannuation lump sum.<sup>36</sup> A commutation also occurs where a superannuation income stream provider converts superannuation income stream entitlements to a superannuation lump sum in compliance with a commutation authority issued under Subdivision 136-B of Schedule 1 to the TAA in respect of that superannuation income stream.

42. Where the superannuation income stream is commuted in full, the superannuation income stream ceases. Where the superannuation income stream is partially commuted<sup>37</sup>, the value of the superannuation interest supporting the superannuation income stream is reduced. The superannuation lump sum that arises from a commutation may be cashed out of the superannuation system or can be retained within the superannuation system subject to the cashing rules for superannuation death benefits.

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<sup>29</sup> Item 1 in the table in subsection 294-80(1).

<sup>30</sup> Item 2 in the table in subsection 297-80(1).

<sup>31</sup> Item 3 in the table in subsection 294-80(1).

<sup>32</sup> Item 4 in the table in subsection 294-80(1).

<sup>33</sup> Item 5 in the table in subsection 294-80(1).

<sup>34</sup> Item 6 in the table in subsection 294-80(1).

<sup>35</sup> Item 7 in the table in subsection 294-80(1).

<sup>36</sup> Refer to paragraph 110 of Taxation Ruling TR 2013/5 *Income tax: when a superannuation income stream commences and ceases*.

<sup>37</sup> It is proposed that amendments will be made to the *Superannuation Industry (Supervision) Regulations 1994* and *Retirement Savings Accounts Regulations 1997* so that partial commutations will not count towards the minimum annual payment requirement for superannuation income streams: see paragraph 3.109 of the Explanatory Memorandum (EM) to the Bill.

43. When a superannuation income stream is fully or partially commuted, a debit arises<sup>38</sup> in your transfer balance account at the time you receive the superannuation lump sum, not at the time that you instruct your superannuation income stream provider to commute a superannuation income stream. For example, if you instruct your superannuation income stream provider to commute a superannuation income stream on 1 July 2017 and due to processing times the superannuation income stream provider commutes the superannuation income stream to a superannuation lump sum on 7 July 2017, the debit arises on 7 July 2017 and not on 1 July 2017.

### **Structured settlements**

44. Compensation or damages received for a personal injury you have suffered that is contributed to a complying superannuation plan may result in a debit to your transfer balance account.<sup>39</sup> The contribution must arise from:

- (a) the settlement of a personal injury claim that is based on the commission of a wrong, or a right created by statute, effected by a written settlement agreement between the parties
- (b) settlement of a personal injury claim arising under an Australian workers compensation law, or
- (c) the order of a court made in respect of a claim that is based on the commission of a wrong, or a right created by statute (not including a court order approving or endorsing a settlement agreement as mentioned above).<sup>40</sup>

45. In addition:

- (a) for contributions made on or after 10 May 2006, the contribution must be covered by section 292-95, which includes requirements for the contribution to be made by a particular time<sup>41</sup> and for the superannuation provider to be notified,<sup>42</sup> or
- (b) for contributions made before 10 May 2006, the contribution would have been covered by 292-95 if it had been in force at that time disregarding paragraphs 292-95(1)(b) and (d), which are in respect of timing and notification requirements.

46. The transfer balance debit is equal to the amount of the contribution and arises at the later of when the contribution is made or when you first start to have a transfer balance account.

### **Example 3 – Structured settlement**

47. *Alice is seriously injured in a car accident. She undertakes legal proceedings against the driver and is awarded a court ordered structured settlement of \$4 million on 1 July 2016.*

48. *Alice contributes the \$4 million into her superannuation fund, notifies her superannuation fund that this contribution is a structured settlement and commences a superannuation income stream with this amount.*

49. *Immediately before 1 July 2017 (end of 30 June 2017), the value of Alice's superannuation interest is now \$3.5 million due to investment returns and superannuation*

<sup>38</sup> Per item 1 in the table in subsection 294-80(1).

<sup>39</sup> Per item 2 in the table in subsection 294-80(1).

<sup>40</sup> Paragraph 292-95(1)(a), subsection 292-95(3) and (4).

<sup>41</sup> Paragraph 292-95(1)(b).

<sup>42</sup> Paragraph 292-95(1)(d).

*income stream payments made to her. Alice's transfer balance account commences on 1 July 2017 and a transfer balance credit of \$3.5 million arises on this day in respect of this superannuation income stream.*

50. *On 1 July 2017, a transfer balance debit of \$4 million also arises in Alice's transfer balance account in respect of the structured settlement contribution. Therefore, Alice's transfer balance is negative \$500,000 at the end of 1 July 2017. Alice is entitled to start another superannuation income stream with a value up to \$2.1 million without exceeding her transfer balance cap (\$1.6 million).*

51. *Because her transfer balance is measured at the end of a day, Alice has never had an excess transfer balance (because the relevant credit and debit both arose on the same day, 1 July 2017) and is eligible to increase her transfer balance cap by indexation in future years.*

### **Superannuation income streams that fail to comply with the standards**

52. In certain circumstances a superannuation income stream may cease to be a superannuation income stream because it has failed to comply with the rules or standards under which it is provided.

53. One of these circumstances is when the superannuation income stream provider fails to pay the minimum amount of superannuation income stream benefits required under the regulatory rules.

54. Where this occurs, the superannuation income stream provider is taken not to have been paying a superannuation income stream during the income year and the income stream ceases to be a superannuation income stream.<sup>43</sup> However, the credit that arose in the individual's transfer balance account remains due to the operation of section 294-50.

55. A debit arises in the individual's transfer balance account at the end of the superannuation income stream provider's income year.<sup>44</sup> The value of the debit is the value of the superannuation interest that supports the income stream at the end of the superannuation income stream provider's income year.

### **A non-commutable excess transfer balance**

56. A debit will arise in your transfer balance account when the Commissioner notifies you that you have a non-commutable excess transfer balance.<sup>45</sup> This situation may arise if you have an excess transfer balance and you have no superannuation income streams (other than capped defined benefit income streams) left. In this situation, a debit for the remaining excess transfer balance identified in the notice arises in your transfer balance account at the time the Commissioner issues the notice.

### **Debits that you must notify us about in the approved form**

57. Your superannuation income stream provider does not typically notify us of payment splits and events that result in a reduction in the superannuation interest supporting your superannuation income stream.<sup>46</sup> As such you, or your spouse in respect to payment splits, will need to notify us in the approved form if a payment split or reduction

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<sup>43</sup> One of the consequences of this is that the income earned in respect of this superannuation interest is not exempt income under Subdivision 295-F.

<sup>44</sup> Item 6 in the table in subsection 294-80(1).

<sup>45</sup> Item 7 in the table in subsection 294-80(1).

<sup>46</sup> These events include reductions to the value of a superannuation interest that support a superannuation income stream as a result of a conviction of an offence of fraud or dishonesty, or as a result of bankruptcy.

in the superannuation interest supporting your superannuation income stream occurs for a debit to arise in your transfer balance account.<sup>47</sup>

58. Often there is a delay between when the debit arises in your transfer balance account and when you notify us of the debit. In some cases, this delay may lead to a temporary breach of your transfer balance cap. However, once the Commissioner is notified, the debit is applied retrospectively to remedy the breach.

### **Payment splits: divorce or relationship breakdown**

59. Following a divorce or other relationship breakdown, superannuation interests may be split as part of the division of property. Payment splits may come about from a court order or a superannuation agreement between the parties (see Part VIII B of the *Family Law Act 1975*).

60. Different treatment arises for the purposes of your transfer balance account depending on whether, under the payment split, the non-member spouse is entitled to either a lump sum amount or a percentage of the member spouse's superannuation income stream benefits payable from the superannuation income stream.

60A. If the payment split is achieved by the member spouse fully or partially commuting a superannuation income stream that is in the retirement phase to pay the non-member spouse a lump sum amount, a debit will arise in the member spouse's transfer balance account.<sup>48</sup> If the non-member spouse chooses to use that lump sum amount to start a superannuation income stream, a transfer balance credit arises in their transfer balance account.<sup>49</sup> These transfer balance credits and debits will be reported to the Commissioner by superannuation income stream providers.

61. Where the split is achieved by dividing the superannuation income stream benefits payable from the superannuation income stream, a credit to the full value of the superannuation interest that supports the superannuation income stream (at the time of the payment split) arises in the transfer balance account of the non-member spouse.<sup>50</sup> In these circumstances the transfer balance credit that originally arose in the member spouse's transfer balance account in respect of the superannuation income stream is not altered.

61A. However, each spouse will receive a debit equal to the other spouse's respective proportional entitlement to the superannuation income stream benefits payable from the superannuation income stream.<sup>51</sup> The purpose of these debits is to proportionately reduce the credits that arose as a result of both the member spouse and the non-member spouse being a retirement phase recipient of the superannuation income stream as a result of the payment split.

61B. In this case, the payment split must apply to a superannuation interest that supports a superannuation income stream that is in the retirement phase and both spouses must be retirement phase recipients of that superannuation income stream as a result of the payment split.<sup>52</sup>

61C. The time at which these debits arise in the member spouse's and non-member spouse's transfer balance account is the later of:<sup>53</sup>

- (a) the operative time for the payment split, or

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<sup>47</sup> Paragraph 294-85(1)(b).

<sup>48</sup> Item 1 in the table in subsection 294-80(1).

<sup>49</sup> Item 1 and item 2 in the table in subsection 294-25(1).

<sup>50</sup> The credit arises under item 1 or 2 of the table in section 294-25 at the time you start to be a retirement phase recipient.

<sup>51</sup> Item 4 in the table in subsection 294-80(1).

<sup>52</sup> Section 294-90(2).

<sup>53</sup> Subsection 294-90(4).

- (b) at the start of the day the member spouse or non-member spouse first starts to have a transfer balance account.

62. [Omitted.]

63. The operative time for a payment split under a superannuation agreement<sup>54</sup> is the beginning of the fourth business day after the day on which a copy of that agreement, with the relevant accompanying documentation, is served on the trustee of the eligible superannuation plan.

64. The operative time for a payment split under a court order means the time specified in the order.<sup>55</sup> In order for the debit to arise, the Commissioner must be notified in the approved form; however, only one spouse needs to notify the Commissioner of the payment split and it does not matter which spouse.

#### **Example 4 – Payment splits**

65. *Justin has a superannuation income stream that is in the retirement phase that pays \$4,000 per month. The superannuation interest that supports this income stream is valued at \$1.6 million just before 1 July 2017 (at the end of 30 June 2017). Therefore, on 1 July 2017, Justin commences to have a transfer balance account and his transfer balance is \$1.6 million which is equal to his transfer balance cap.*

66. *On 18 November 2017, Justin’s wife Lizzy leaves him. The court orders that 60% of the superannuation income stream benefit payable under Justin’s superannuation income stream should go to Lizzy. The date specified in the court order is 1 April 2018. Prior to this date, Lizzy did not have a transfer balance account.*

67. *On 1 April 2018, Lizzy becomes the retirement phase recipient of a superannuation income stream and commences to have a transfer balance account. On this day, the superannuation interest supporting the income stream is valued at \$1.61 million (this is not a breach of Justin’s transfer balance cap as his transfer balance remains \$1.6 million).*

68. *Justin notifies the Commissioner of the payment split in the approved form.*

68A. *A transfer balance debit arises in Justin’s transfer balance account on 1 April 2018 equal to 60% of the value of the superannuation interest that supports the superannuation income stream on 1 April 2018 (\$966,000).*

68B. *A transfer balance credit of \$1.61 million arises in Lizzy’s transfer balance account on 1 April 2018. A transfer balance debit also arises in Lizzy’s transfer balance account on 1 April 2018 equal to 40% of the value of the superannuation interest that supports the superannuation income stream on 1 April 2018 (\$644,000). Because her transfer balance is measured at the end of a day, Lizzy has never had an excess transfer balance and is eligible to increase her transfer balance cap by indexation in future years.*

68C. *Justin, however, is not eligible to increase his transfer balance cap by indexation in future years as his transfer balance was equal to his transfer balance cap in the past.*

| <b>Justin’s transfer balance account</b> |                                    |              |               |                |
|--|------------------------------------|--------------|---------------|----------------|
| <b>Date</b>                              | <b>Description</b>                 | <b>Debit</b> | <b>Credit</b> | <b>Balance</b> |
| 1 July 2017                              | Transfer balance account commences |              | \$1.6 million | \$1.6 million  |
| 1 April 2018                             | Payment split                      | \$966,000    |               | \$634,000      |

<sup>54</sup> Section 90MI of the *Family Law Act 1975*.

<sup>55</sup> Section 90MD of the *Family Law Act 1975*.

| <b>Lizzy's transfer balance account</b> |                                    |              |                |                |
|---|------------------------------------|--------------|----------------|----------------|
| <b>Date</b>                             | <b>Description</b>                 | <b>Debit</b> | <b>Credit</b>  | <b>Balance</b> |
| 1 April 2018                            | Transfer balance account commences | \$644,000    | \$1.61 million | \$966,000      |

69. [Omitted.]

### **Excess transfer balance**

70. If the balance of your transfer balance account exceeds your transfer balance cap at the end of a particular day, you have breached your transfer balance cap and you have an excess transfer balance.<sup>56</sup>

71. Your transfer balance at a time is the sum of the credits in your transfer balance account less the sum of your debits.<sup>57</sup>

72. However, the transitional provisions provide that you do not have an excess transfer balance in the transitional period from 1 July 2017 to 31 December 2017<sup>58</sup> if:

- the only transfer balance credits in your transfer balance account are from existing superannuation income streams at the end of 30 June 2017
- your transfer balance is in excess of your transfer balance cap (\$1.6 million) by an amount equal to or less than \$100,000, and
- your transfer balance is reduced to or below your transfer balance cap within the transitional period.<sup>59</sup>

73. [Omitted.]

74. The transitional provisions operate only to disregard your excess transfer balance for this six month period so that you do not have any excess transfer balance earnings and you are not liable for excess transfer balance tax.

75. [Omitted.]

76. As discussed in paragraph 17 of this Guideline, even though your excess transfer balance is disregarded for the transitional period up to 31 December 2017, your transfer balance has still exceeded your transfer balance cap and you will not be entitled to increase your transfer balance cap as a result of proportional indexation.<sup>60</sup>

76A. If the value of all your superannuation interests supporting superannuation income stream/s is likely to exceed \$1.6 million as at 30 June 2017, you will need to closely monitor the balance of your superannuation interests that support superannuation income streams to ensure that you do not exceed your transfer balance cap initially and/or at the end of 31 December 2017. This may require you to reduce the value of your existing superannuation interests supporting superannuation income streams prior to 1 July 2017

<sup>56</sup> Modified rules apply in determining excess transfer balance for individuals who are receiving capped defined benefit income streams and child recipients of death benefit income streams. Refer to LCG 2016/ D10 *Superannuation reform: defined benefit income streams - non commutable, lifetime pensions and lifetime annuities* and LCG 2017/D1 *Superannuation reform: defined benefit income streams - pensions or annuities paid from non-commutable, life expectancy or market-linked products* and Subdivision 294-E for further guidance on these rules.

<sup>57</sup> Subsection 294-30(2).

<sup>58</sup> Section 294-30 of the *Income Tax (Transitional Provisions) Act 1997*.

<sup>59</sup> Note that the transfer balance account needs to be decreased by the excess amount during this period. A direction to your superannuation income stream provider to commute the excess within the 60 days to remove the amount is not sufficient.

<sup>60</sup> Paragraph 294-40(1)(b).

to ensure you do not exceed your transfer balance cap. You will also need to reduce your transfer balance to below \$1.6 million by 31 December 2017 if you are subject to the transitional provision.

77. Though there are a number of ways a debit can arise in your transfer balance account, generally a superannuation income stream will need to be commuted in part or in full to reduce your transfer balance back to or below your transfer balance cap.

### **Excess transfer balance tax**

78. You are liable to pay excess transfer balance tax if you have an excess transfer balance period. An excess transfer balance period is a continuous period of one or more days where you have an excess transfer balance at the end of the day.<sup>61</sup>

79. This amount is calculated at the end of your excess transfer balance period and an assessment will be issued to you for that period.

80. You may rectify your excess transfer balance at any time yourself by instructing your superannuation income stream provider to commute a superannuation income stream in part or in full.

81. In determining the amount to commute, you should take into account your original excess transfer balance, excess transfer balance earnings that will be credited to your transfer balance account and the time required for your superannuation provider to action a commutation.

82. Excess transfer balance earnings are calculated daily on your excess transfer balance and are credited daily to your transfer balance account until the Commissioner issues a determination or you no longer have excess transfer balance, whichever is earlier. Credits for excess transfer balance earnings increases your excess transfer balance.

82A. Though credits for excess transfer balance earnings cease to arise in your transfer balance account once the Commissioner has issued a determination, you will still be liable to excess transfer balance tax in respect of excess transfer balance earnings that accrue in relation to any excess transfer balance that you have after the determination has been issued.

82B. Excess transfer balance earnings only cease to accrue for the purpose of excess transfer balance tax once your transfer balance is at or below your transfer balance cap.

### **Excess transfer balance determinations**

83. If you have excess transfer balance at the end of a day, the Commissioner will generally issue you with an excess transfer balance determination.

84. The Commissioner will issue determinations based on information that we hold about your transfer balance account (such as information reported to the Commissioner by superannuation income stream providers and transfer balance debits notified by you).

85. As there may be delays in the reporting of information to the Commissioner, the determination may not be issued by the Commissioner until many months after you first have an excess transfer balance.

86. An example of when the Commissioner may not issue an excess transfer balance determination is if you reduce your transfer balance to or below your transfer balance cap before a determination is issued.

87. A determination stops credits for excess transfer balance earnings arising in your transfer balance account and increasing your excess transfer balance (from the date the

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<sup>61</sup> Subsection 294-230(2).

determination is issued). However, if a credit arises in your transfer balance account after you receive a determination but before your transfer balance is reduced; excess transfer balance earnings will start to be credited to your transfer balance account again from the date of that second credit.

88. The excess transfer balance determination will state your 'crystallised reduction amount'<sup>62</sup>, which is your excess transfer balance including credits for excess transfer balance earnings to the date of the determination. This is the amount of the debit that needs to arise in your transfer balance account so that you are not in breach of your transfer balance cap.

89. The Commissioner may amend or revoke an excess transfer balance determination at any time before a commutation authority is issued. An example of when this may occur is when a determination is issued and your transfer balance subsequently changes before a commutation authority is issued, such as if you start another pension.

90. [Omitted.]

91. Excess transfer balance earnings<sup>63</sup> continue to be calculated irrespective of the determination until your transfer balance is at or below your transfer balance cap. Excess transfer balance tax is imposed on the excess transfer balance earnings that accrue from the date you first start to have excess transfer balance until you no longer have excess transfer balance.

#### **Default commutation notice**

92. The excess transfer balance determination must also include a default commutation notice stating that, if you do not make an election under section 136-20 of Schedule 1 to the TAA within the period specified in that section, the Commissioner will issue one or more commutation authorities.

93. As part of the default commutation notice, the Commissioner is required to specify which superannuation income stream provider/s the Commissioner will issue a commutation authority to and the superannuation income stream/s that the provider needs to commute in full or in part.<sup>64</sup>

93A. This is intended to help you understand what steps the Commissioner will undertake to remove the crystallised reduction amount if you do not make a valid election or choose to reduce a superannuation income stream yourself.

94. To meet this requirement, the Commissioner will generally specify the superannuation income stream which caused the excess transfer balance. An example of when the Commissioner will specify a different superannuation income stream is if the superannuation income stream that caused the excess transfer balance is a capped defined benefit income stream.<sup>65</sup> The Commissioner is also unlikely to specify a superannuation income stream if the Commissioner is aware that the value of the superannuation interest<sup>66</sup> supporting that superannuation income stream is likely to be less than the crystallised reduction amount (unless this is your only superannuation income stream).

95. You may object to a determination under Part IVC of the TAA as a determination is a taxation decision for Part IVC purposes. However, the default commutation notice that accompanies the determination is not part of the taxation decision, and does not carry any objection rights. However, if you wish for a different superannuation income stream to be

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<sup>62</sup> Defined in subsection 136-10(3) of Schedule 1 to the TAA.

<sup>63</sup> Subsection 294-235(1).

<sup>64</sup> Paragraph 136-10(6)(b) of Schedule 1 to the TAA.

<sup>65</sup> As defined in section 294-130.

<sup>66</sup> Based on information available to the Commissioner.

commuted than that which is specified in a default commutation notice you may do so by directly asking the superannuation income stream provider to commute your chosen superannuation income stream or by making a valid election (explained in paragraph 96 to paragraph 102 of this Guideline).

### **Valid election**

96. When you have been issued with an excess transfer balance determination, you may make an election under section 136-20 of Schedule 1 to the TAA to identify a different superannuation income stream/s to be commuted and the amount by which you wish it to be commuted. Once a valid election is made, it is irrevocable and the Commissioner will issue a commutation authority consistent with your election.

97. This election must be in the approved form and given to the Commissioner within 60 days of the determination issue date or a further period allowed by the Commissioner. Where you make an election in accordance with this section the Commissioner can only issue a commutation authority consistent with your election after this period has ended.

98. In granting a further period for making an election, the Commissioner will take into account your circumstances and the requested extension period. An example of when the Commissioner may grant an extension is if you requested a three week extension because you were sick or were waiting on information from your superannuation provider.

98A. You should note that an extension of time to lodge an election with the Commissioner does not stop excess transfer balance earnings accruing for the purposes of excess transfer balance tax.

99. If the amounts specified in your election are less than the commutable amount, the Commissioner will issue commutation authorities to one or more superannuation providers specified in the default commutation notice to remove the difference.<sup>67</sup>

100. Once you receive a determination, you may choose to remove the crystallised reduction amount yourself by instructing your superannuation income stream provider/s to commute this amount, instead of making an election under section 136-20 of Schedule 1 to the TAA. As excess transfer balance earnings continue to accrue for the purposes of excess transfer balance tax you may choose to approach your superannuation income stream provider directly to give effect to the commutation to lessen the time you have excess transfer balance. You may notify the Commissioner in the approved form of transfer balance debits that arise in the period between the date of the determination and when you make an election under section 136-20 of Schedule 1 to the TAA or the end of the period within which an election under section 136-20 of Schedule 1 to the TAA can be made.

101. [Omitted.]

102. As explained in paragraph 43 of this Guideline, a reduction in your transfer balance account arises at the time you receive the superannuation lump sum and not at the time you instruct your superannuation income stream provider to commute a superannuation income stream.

### **No valid election**

103. Where no valid election is made, the Commissioner must issue a commutation authority in accordance with the default commutation notice if there is a commutable amount.<sup>68</sup>

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<sup>67</sup> Subsection 136-55(3) of Schedule 1 to the TAA.

<sup>68</sup> Subsection 136-55(4) of Schedule 1 to the TAA.

103A. For example, an election will not be valid if your only superannuation income stream is the one specified in the default commutation authority.<sup>69</sup>

### Commutation authorities

104. Once an excess transfer balance determination is issued and is not revoked, the Commissioner must issue commutation authorities to one or more superannuation income stream providers if there is a commutable amount.<sup>70</sup>

105. There is a commutable amount if the crystallised reduction amount reduced by the total of any transfer balance debits notified to the Commissioner under section 136-25 of Schedule 1 to the TAA is greater than nil.

106. The Commissioner will issue commutation authorities with the objective of ensuring that transfer balance debits after the determination date equal the crystallised reduction amount.

107. Where the initial commutation authorities fail to reduce your transfer balance to or below your transfer balance cap, the Commissioner is able to issue further commutation authorities to any of your superannuation income stream providers to ensure you no longer have excess transfer balance. These further commutation authorities do not need to be the ones specified in the default commutation notice or your election if you make one.

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### Commissioner of Taxation

10 March 2017

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### References

| ATOlaw topic(s)        | Superannuation -- Income tax - individuals (superannuation) --<br>Other  |
|------------------------|--|
| Legislative references | ITAA 1997<br>ITAA 1997 292-95<br>ITAA 1997 294-15<br>ITAA 1997 294-15(2)<br>ITAA 1997 294-20(1)(a)<br>ITAA 1997 294-20(1)(b)<br>ITAA 1997 294-20(2)<br>ITAA 1997 294-25<br>ITAA 1997 294-25(1)<br>ITAA 1997 294-30(1)<br>ITAA 1997 294-30(2)<br>ITAA 1997 294-35(1)<br>ITAA 1997 294-35(2)<br>ITAA 1997 294-35(3)<br>ITAA 1997 294-40<br>ITAA 1997 294-40(1)(b)<br>ITAA 1997 294-40(2)<br>ITAA 1997 294-45<br>ITAA 1997 294-50<br>ITAA 1997 294-80<br>ITAA 1997 294-80(1)<br>ITAA 1997 294-85(1)(b)<br>ITAA 1997 294-90(2) |

<sup>69</sup> Paragraph 136-20(1)(b) of Schedule 1 to the TAA.

<sup>70</sup> Subsection 136-55(1) of Schedule 1 to the TAA.

|                                |  |
|--------------------------------|--|
|                                | <p>ITAA 1997 294-90(4)<br/> ITAA 1997 294-130<br/> ITAA 1997 294-230(2)<br/> ITAA 1997 294-235(1)<br/> ITAA 1997 307-80<br/> ITAA 1997 307-80(2)<br/> ITAA 1997 307-80(3)<br/> ITAA 1997 960-265<br/> ITAA 1997 960-285<br/> TAA 1953<br/> TAA 1953 Part IVC<br/> TAA 1953 136-10(3) Sch 1<br/> TAA 1953 136-10(6) Sch 1<br/> TAA 1953 136-20 Sch 1<br/> TAA 1953 136-25 Sch 1<br/> TAA 1953 136-55(1) Sch 1<br/> TAA 1953 136-55(3) Sch 1<br/> TAA 1953 136-55(4) Sch 1<br/> Family Law Act 1975<br/> Family Law Act 1975 Part VIIIB<br/> Family Law Act 1975 90MI<br/> Family Law Act 1975 90MD<br/> ITTPA 1997<br/> ITTPA 1997 294-30<br/> Treasury Laws Amendment (Fair and Sustainable Superannuation) Act 2016</p> |
| Related Rulings/Determinations | TR 2013/5  |
| BSL                            | SPR  |

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