

TD 97/D1 - Income tax: what is the method for valuing fixed term pensions for purposes of the reasonable benefit limits?



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This document has been finalised by TD 97/20.

Draft Taxation Determinations (TDs) represent the preliminary, though considered, views of the ATO. Draft TDs may not be relied on; only final TDs are authoritative statements of the ATO.

Draft Taxation Determination

Income tax: what is the method for valuing fixed term pensions for purposes of the reasonable benefit limits?

1. Under subsection 140ZO(2) of the *Income Tax Assessment Act 1936* (ITAA), the Commissioner must determine in writing a method for calculating the **capital value** of a superannuation pension that is not payable for life. A pension that is payable for a fixed term comes within this subsection as it is not payable for life.

2. The formula used to determine the capital value of a fixed term pension is:

$$\text{Capital Value} = (C \times F) - \text{UPP} + \text{RCV}$$

where:

C is the annualised amount of the first regular payment. It is calculated by multiplying the first regular payment by the greatest number of pension payments which are expected during the first 12 months beginning at the time the pension is paid.

F is the pension valuation factor set out in the Table of Pension Valuation Factors for Fixed Term Pensions attached to this Determination.

UPP is the undeducted purchase price of the pension.

RCV is the present value of the residual capital value of the pension calculated by using the formula:

$$\text{RCV} = A/(1.1)^n$$

where: **A** is the residual capital value of the pension. This is the dollar amount the fund expects will be paid as a lump sum after a fixed term of **n** years;

n is the number of years, or parts of a year, between the commencement day of the pension and the payment of the residual capital value.

3. The capital value calculated above is used to determine whether a fixed term pension paid to a person is within the person's reasonable benefit limits (RBLs). Generally, a fixed term pension is a **rebatable superannuation pension** as defined in section 159SJ. In terms of paragraph 140ZK(a), the RBL amount of a rebatable superannuation pension is the **capital value** of the pension.

4. The compulsory characteristics of a fixed term pension are set out in subregulation 1.06(6) of the Superannuation Industry (Supervision) Regulations 1993 (SISR). In addition, as a fixed term pension will not satisfy all of the requirements of the pension and annuity standards in regulation 53J of the Income Tax Regulations (ITR) and subregulations 1.05(2) and 1.06(2) of SISR, it will be subject to the recipient's lump sum RBL.

5. Where the indexation rate or the term of the pension lies outside the range of values specified in the Attachment, full details surrounding the particular fixed term pension should be provided to the ATO in order to determine the relevant valuation factor.

Example

Mark has decided to retire and take a fixed term pension. The pension that he has selected will be for 20 years and will be indexed at 5% pa. The initial monthly payment of the pension will be \$1,200 and it has an undeducted purchase price of \$80,000. There is no residual capital value.

For purposes of applying the RBLs, the capital value of the pension is calculated as:

$$\begin{aligned}\text{Capital Value} &= (14,400 \times 12) - 80,000 + 0 \\ &= \$92,800\end{aligned}$$

Commissioner of Taxation

16 April 1997

FOI INDEX DETAIL: Reference No.

Related Determinations:

Related Rulings:

Subject Ref: capital value of fixed term pensions; fixed term pensions; reasonable benefit limits; rebatable superannuation pensions; superannuation pensions

Legislative Ref: ITAA 140ZK(a); ITAA 140ZO(2); ITAA 159SJ; ITR 53J; SISR 1.05(2); SISR 1.06(2); SISR 1.06(6)

Case Ref:

ATO Ref: NAT 97/2052-9; BANTD43

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**TABLE OF PENSION VALUATION FACTORS
FOR FIXED TERM PENSIONS**

Pension Term (years)	Indexation Rate								
	0.00%	1.00%	2.00%	3.00%	4.00%	5.00%	6.00%	7.00%	8.00%
3	2	2	2	2	2	2	2	2	2
4	3	3	3	3	3	3	3	3	3
5	4	4	4	4	4	4	4	4	4
6	4	4	4	4	5	5	5	5	5
7	5	5	5	5	5	5	6	6	6
8	5	5	5	6	6	6	6	7	7
9	6	6	6	6	7	7	7	7	8
10	6	6	6	7	7	7	8	8	9
11	6	7	7	7	8	8	8	9	9
12	7	7	7	8	8	9	9	10	10
13	7	7	8	8	9	9	10	10	11
14	7	8	8	9	9	10	10	11	12
15	7	8	8	9	10	10	11	12	12
16	8	8	9	9	10	11	11	12	13
17	8	8	9	10	10	11	12	13	14
18	8	9	9	10	11	11	12	13	15
19	8	9	9	10	11	12	13	14	15
20	8	9	10	10	11	12	13	15	16
21	9	9	10	11	12	13	14	15	17
22	9	9	10	11	12	13	14	16	17
23	9	10	10	11	12	13	15	16	18
24	9	10	10	11	12	14	15	17	19
25	9	10	11	12	13	14	15	17	19
26	9	10	11	12	13	14	16	18	20
27	9	10	11	12	13	15	16	18	20
28	9	10	11	12	13	15	16	19	21
29	9	10	11	12	13	15	17	19	22
30	9	10	11	12	14	15	17	19	22