



Taxation Determination

Income tax: what is the method of calculating the capital value of purchased pensions not payable for life for the purposes of the reasonable benefit limits (RBLs)?

Preamble

*The number, subject heading, date of effect and paragraphs 1 to 8 of this Taxation Determination are a 'public ruling' for the purposes of Part IVAAA of the **Taxation Administration Act 1953** and are legally binding on the Commissioner. The remainder of the Determination is administratively binding on the Commissioner. Taxation Rulings TR 92/1 and TR 97/16 together explain how a Determination is legally or administratively binding.*

Date of Effect

This Determination applies to superannuation pensions commencing on or after 1 July 2000..

1. A pension is regarded as purchased when the rules providing for the pension are based on an identifiable lump sum amount or the amount available in the member's account. For example, the purchase price of an allocated pension is the account balance on the 'commencement day' of the allocated pension. The 'commencement day' is defined in section 140C of the *Income Tax Assessment Act 1936* as the first day of the period to which the first payment of the pension relates.
2. The method for calculating the capital value of a fixed term pension other than a purchased pension is set out in Taxation Determination TD 2000/28.
3. Under subsection 140ZO(2) of the *Income Tax Assessment Act 1936*, the Commissioner must determine in writing a method for calculating the capital value of a superannuation pension that is not payable for life. Allocated pensions come within subsection 140ZO(2) as they are not payable for life. In addition, purchased pensions not payable for life, including pensions which satisfy the standards of subregulation 1.06(7) of the Superannuation Industry (Supervision) Regulations (SISR), come within subsection 140ZO(2).
4. The formula used to determine the capital value of all purchased pensions that are not payable for life is:

$$\text{Capital Value} = \text{Purchase Price} - (\text{Undeducted Contributions} + \text{Concessional Component} + \text{Invalidity Component})$$

where:

Purchase Price is the purchase price of the pension.

Undeducted Contributions is the amount of the undeducted contributions as defined in subsection 27A(1).

Concessional Component is the amount of the concessional component as defined in subsection 27A(1).

Invalidity Component is the amount of the post-June 1994 invalidity component as defined in subsection 27A(1).

5. Where an accumulation fund has underlying assets that commence to provide for the pension, the assets must be valued at their net market value on the commencement day of the pension. It is this value that must be reported to the ATO as the purchase price of the pension. The fund may maintain solvency reserves for the purposes of obtaining actuarial certification that there is a reasonable probability that the pension will continue to be paid as required under the Superannuation Industry (Supervision) Regulations. The value of these reserves do not form part of the purchase price of the pension for RBL purposes.

6. In recognition of the costs involved for superannuation funds in obtaining valuations, the ATO will accept the most recent valuation obtained within the last 12 months of the commencement day of the pension. This would include valuations obtained for other statutory purposes.

7. For RBL reporting purposes, the components of the purchase price must be calculated by reference to the amount of the purchase price and eligible service period of the pension at the commencement day. In effect, the purchase price is treated as a notional Eligible Termination Payment (ETP).

8. The capital value calculated in paragraph 4 is used to determine whether a pension not payable for life (whether a fixed term pension or an allocated pension), paid to a person is within the person's lump sum or pension RBLs.

Example 1

On 1 July 2000 Andrew, then aged 70, commences to receive a pension which has a purchase price of \$600,000. It includes undeducted contributions of \$20,000, concessional component of \$25,000 and a post-June 1994 invalidity component of \$10,000.

Andrew's life expectancy determined by reference to the relevant prescribed Life Tables prepared by the Australian Government Actuary is 12.8 years. Andrew's pension is therefore payable for a fixed term of 13 years and meets the requirements of subregulation 1.06(7) (SISR). The capital value of the pension is:

$$\begin{aligned} \text{Capital Value} &= \$600,000 - (\$20,000 + \$25,000 + \$10,000) \\ &= \$545,000 \end{aligned}$$

Example 2

The Cross Superannuation Fund has two members, Alister and Caroline, and has assets of \$200 000 valued at historical cost that will provide pensions. Based on historical cost, Alister and Caroline have member accounts of \$150,000 and \$50,000 respectively.

Alister retires in July and commences to receive an allocated pension. The net market value of the fund's assets underlying Alister's pension is \$300,000. The purchase price of Alister's pension

reported to the ATO is therefore \$300,000. This includes undeducted contributions of \$50,000. The capital value of the pension is:

$$\begin{aligned}\text{Capital Value} &= \$300,000 - (\$50,000 + \$0 + \$0) \\ &= \$250,000\end{aligned}$$

Example 3

Caroline, from example 2, decides to retire in December of the same year. Providing no later valuations have been obtained, the superannuation fund can use the valuation of the fund's assets that was originally obtained when Alister retired in July. At that time the net market value of assets underlying Caroline's allocated pension was \$100,000. At the date the pension commenced Caroline's account included \$20,000 undeducted contributions.

The capital value of the pension is:

$$\begin{aligned}\text{Capital Value} &= \$100,000 - (\$20,000 + \$0 + \$0) \\ &= \$80,000\end{aligned}$$

Commissioner of Taxation

28 June 2000

Previous draft:

Previously released in draft from as TD 2000/D7

Related Rulings/Determinations:

TD 2000/28;

Subject references:

- eligible termination payments;
- fixed term pensions;
- pension capital value;
- reasonable benefit limits;
- superannuation pensions;
- superannuation funds;

Legislative references:

- ITAA 1936 140ZO(1);
- ITAA 1936 140ZO(2);

ATO references:

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