



# ***TD 97/21 - Income tax: what is the method for calculating the capital value of an allocated pension for the purposes of the reasonable benefit limits?***

 This cover sheet is provided for information only. It does not form part of *TD 97/21 - Income tax: what is the method for calculating the capital value of an allocated pension for the purposes of the reasonable benefit limits?*

 This document has changed over time. This is a consolidated version of the ruling which was published on *1 October 1997*

This Determination, to the extent that it is capable of being a 'public ruling' in terms of Part IVAAA of the *Taxation Administration Act 1953*, is a public ruling for the purposes of that Part. Taxation Ruling TR 92/1 explains when a Determination is a public ruling and how it is binding on the Commissioner. Unless otherwise stated, this Determination applies to years commencing both before and after its date of issue. However, this Determination does not apply to taxpayers to the extent that it conflicts with the terms of a settlement of a dispute agreed to before the date of issue of the Determination (see paragraphs 21 and 22 of Taxation Ruling TR 92/20).

## Taxation Determination

### Income tax: what is the method for calculating the capital value of an allocated pension for the 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. An allocated pension paid from a superannuation fund comes within this subsection as it is not payable for life.

2. The formula used to determine the capital value of an allocated pension is:

$$\text{Capital value of the allocated pension} = \text{PP} - (\text{UC} + \text{CC} + \text{IC})$$

where:

**PP** is the purchase price or the account balance of the allocated pension. It is calculated as the amount in the person's account on the 'commencement day' of the allocated pension. The 'commencement day' is defined in section 140C of the ITAA as the first day of the period to which the first payment of the pension relates.

**UC** - is the amount of undeducted contributions as defined in subsection 27A(1).

**CC** - is the concessional components as defined in subsection 27A(1).

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

3. The capital value calculated above is used to determine whether the allocated pension paid to a person is within the person's lump sum or pension reasonable benefit limits (RBLs), as appropriate. Subject to some limited exceptions, an allocated 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 an allocated pension (including the calculation of the maximum and minimum amounts payable) are set out in subregulation 1.06(4) and Schedule 1A of the Superannuation Industry (Supervision) Regulations (SISR). In addition, an allocated pension will not satisfy all of the requirements of the pension and annuity standards in regulation 53J of the Income Tax Regulations and subregulations 1.05(2) and 1.06(2) of the SISR.

### **Example**

*Harry has an eligible termination payment (ETP) of \$200,000. It includes undeducted contributions of \$50,000, concessional components of \$10,000 and a post-June 1994 invalidity component of \$5,000. The capital value is not reduced by costs associated with the commencement of the allocated pension.*

*Harry purchases an allocated pension with his ETP. The capital value of the pension is:*

$$\begin{aligned} \text{Capital Value} &= \$200,000 - (\$50,000 + \$10,000 + \$5,000) \\ &= \$135,000 \end{aligned}$$

*As Harry's allocated pension is a rebatable superannuation pension, the RBL amount of it is as calculated above. Therefore, \$135,000 will be used to determine whether the payment is in excess of Harry's lump sum or pension RBL, as appropriate.*

### **Commissioner of Taxation**

1 October 1997

FOI INDEX DETAIL: [Reference No.](#) I 1015458

Previously issued as Draft TD 97/D2

[Related Determinations:](#)

[Related Rulings:](#)

[Subject Ref:](#) allocated pension; capital value of allocated pension; reasonable benefit limits; rebatable superannuation pensions

[Legislative Ref:](#) ITAA 27A(1); ITAA 140C; ITAA 140ZK(a); ITAA 140ZO; ITAA 140ZO(2); ITAA 159SJ; ITR 53J; SISR 1.05(2); SISR 1.06(2); SISR 1.06(4); SISR Schedule 1A

[Case Ref:](#)

[ATO Ref:](#) NAT 97/2051-1; BANTD43

ISSN 1038 - 8982