




# ***TR 2013/5 - Income tax: when a superannuation income stream commences and ceases***

 This cover sheet is provided for information only. It does not form part of *TR 2013/5 - Income tax: when a superannuation income stream commences and ceases*

 There are Compendiums for this document: **TR 2013/5EC** and **TR 2013/5EC2** .

 This document has changed over time. This is a consolidated version of the ruling which was published on *26 June 2024*



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Status: **legally binding**

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## Taxation Ruling

# Income tax: when a superannuation income stream commences and ceases

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*This publication (excluding appendixes) is a public ruling for the purposes of the Taxation Administration Act 1953.*

*If this Ruling applies to you, and you correctly rely on it, we will apply the law to you in the way set out in this Ruling. That is, you will not pay any more tax or penalties or interest in respect of the matters covered by this Ruling.*

**[Note:** This is a consolidated version of this document. Refer to the Legal database ([ato.gov.au/law](http://ato.gov.au/law)) to check its currency and to view the details of all changes.]

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**What this Ruling is about**

1. This Ruling explains when a superannuation income stream commences and when it ceases, and consequently when a superannuation income stream is payable. These concepts are relevant to determining the income tax consequences for both the superannuation fund and the member<sup>1</sup> in relation to superannuation income stream benefits paid.<sup>1A</sup>
2. This Ruling considers the case where a member with an accumulation interest in a taxed complying superannuation fund commences a superannuation income stream on or after 1 July 2007 that meets the conditions of subparagraph (a)(ii) of the definition of superannuation income stream in subsection 307-70.02(1) of the *Income Tax Assessment (1997 Act) Regulations 2021* (ITAR (1997 Act) 2021).<sup>1B</sup> That is, where the superannuation income stream is taken to be a pension in accordance with subregulation 1.06(1) of the *Superannuation Industry (Supervision) Regulations 1994* (SISR 1994).
3. Although there are various pension types that satisfy subregulation 1.06(1) of the SISR 1994, this Ruling applies to a pension that satisfies subregulation 1.06(1) and paragraph 1.06(9A)(a) of the SISR 1994. In this Ruling a product that satisfies these provisions is referred to as an 'account-based pension' or a superannuation income stream.
4. This Ruling also applies to an account-based pension that is a transition to retirement income stream (as defined in paragraph (b) of the definition of transition to retirement income stream in subregulation 6.01(2) of the SISR 1994).
- 4A. All legislative references in this Ruling are to the *Income Tax Assessment Act 1997* (ITAA 1997), unless otherwise indicated.
- 4B. Appendix 2 to this Ruling lists relevant legislative changes that have been made since 1 July 2012.

## Ruling

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**What is an 'income stream' and a 'superannuation income stream'**

5. There is an 'income stream' within the definition of 'superannuation income stream'<sup>2</sup>, if a superannuation fund trustee has a liability to pay to a member a series of periodic payments that relate to each other over an identifiable period of time. The payments need not be periodic in the sense that they are always paid at the same, recurring intervals. The payments in a series may also vary in amount. A liability to make a single payment each year for a number of years can constitute a liability to pay a member a series of payments. However, a liability to make a single payment for one year will not be considered a liability to pay a member a series of payments and therefore will not be an income stream.

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<sup>1</sup> The term 'member' refers to the person who first commences a superannuation income stream.

<sup>1A</sup> These concepts are also relevant to the transfer balance cap provisions in Division 294 of the *Income Tax Assessment Act 1997*. For an explanation of these concepts in relation to the transfer balance cap see Law Companion Ruling LCR 2016/9 *Superannuation reform: transfer balance cap*.

<sup>1B</sup> Superannuation income stream is defined in subsection 307-70(2) of the *Income Tax Assessment Act 1997* as having the meaning given by the ITAR (1997 Act) 2021.

<sup>2</sup> Subsection 307-70.02(1) of the ITAR (1997 Act) 2021.

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6. A series of periodic payments (including a series of periodic payments made annually) that relate to each other and are made over an identifiable period of time, is a superannuation income stream if the requirements of subregulation 1.06(1) of the SISR 1994 are met.

### ***Superannuation income stream benefits and superannuation lump sums***

7. Each periodic payment, in a series of periodic payments, made from a superannuation interest that supports a superannuation income stream is a superannuation income stream benefit.<sup>3</sup>

8. A superannuation lump sum is a superannuation benefit that is not a superannuation income stream benefit.<sup>4</sup> An example of a superannuation lump sum is a payment made from a superannuation interest that has ceased to support a superannuation income stream.<sup>5</sup>

8A. A payment made as the result of a partial commutation of a superannuation income stream will also be treated as a superannuation lump sum for the purposes of the ITAA 1997 (apart from Subdivision 295-F).<sup>7A</sup>

### ***When a superannuation income stream commences***

9. A superannuation income stream can never commence before all the capital which is to support that income stream has been added by way of contribution or rollover to the relevant superannuation interest from which the superannuation income stream is to be paid.<sup>8</sup>

10. Subject to what is said in paragraph 9 of this Ruling, a superannuation income stream commences on the first day of the period to which the first payment of the superannuation income stream relates (the commencement day).<sup>9</sup>

11. When the commencement day occurs must be determined by reference to the terms and conditions of the superannuation income stream agreed by the trustee and member, the rules of the superannuation income stream as set out in the governing rules<sup>10</sup> of the superannuation fund and the relevant regulations of the SISR 1994.<sup>11</sup>

12. The commencement day may occur before the due date of the first payment, depending on the rules which govern the superannuation income stream, but the

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<sup>3</sup> See the definition of superannuation income stream benefit in subsection 307-70(1) of the ITAA 1997, and section 307-70.01 of the ITAR (1997 Act) 2021.

<sup>4</sup> Section 307-65.

<sup>5</sup> The example mentioned is not intended to be an exhaustive list of superannuation lump sums that may be made from a superannuation interest that is supporting, or has supported, a superannuation income stream.

<sup>6</sup> [Omitted.]

<sup>7</sup> [Omitted.]

<sup>7A</sup> Subsection 307-65(2).

<sup>8</sup> For further explanation see paragraphs 83 to 86, and Example 4 in paragraphs 36 to 38, of this Ruling.

<sup>9</sup> See the definition of 'commencement day' in subregulation 1.03(1) of the SISR 1994.

<sup>10</sup> The term 'governing rules' in relation to a fund, scheme or trust is defined in subsection 10(1) of the *Superannuation Industry (Supervision) Act 1993* (SISA 1993) as: any rules contained in a trust instrument, other document or legislation, or combination of them; or any unwritten rules; governing the establishment or operation of the fund, scheme or trust.

<sup>11</sup> The commencement day is not affected by clause 4 of Schedule 7 to the SISR 1994. This clause states that if the commencement day of a pension is on or after 1 June in a financial year, no payment is required to be made for that financial year. Thus, for that clause to apply, it is first necessary to determine when the pension commences.

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commencement day cannot precede the date of the member's request or application. Further, the commencement day cannot occur prior to:

- the day established as the commencement day in the terms and conditions agreed between the member and the trustee that will govern the superannuation income stream, or
- in circumstances where a member or dependant beneficiary<sup>12</sup> becomes entitled to the superannuation income stream under the governing rules of the superannuation fund, the time at which the entitlement to start the income stream arises.<sup>13</sup>

13. Once a superannuation income stream commences it is payable (that is, there is an obligation to pay superannuation income stream benefits from that superannuation income stream) until such time as that superannuation income stream ceases. This remains true even if the member dies before any payment is due to be made under the terms of that arrangement.<sup>14</sup>

#### **When a superannuation income stream ceases**

14. A superannuation income stream ceases when there is no longer a member who is entitled, or a dependant beneficiary of a member who is automatically entitled, to be paid a superannuation income stream benefit from a superannuation interest that supports a superannuation income stream.

15. It is not the effect of section 307-200.05 of the ITAR (1997 Act) 2021 to ensure that once an income stream commences it can only cease once the amount in the relevant superannuation interest is exhausted.<sup>15</sup>

16. When a superannuation income stream ceases is determined by reference to the particular superannuation fund's governing rules, the requirements of the SISR 1994 and the facts and circumstances of the payment of the member's, or dependant beneficiary's, benefits.<sup>16</sup>

17. The common circumstances in which a superannuation income stream ceases are outlined below.

#### **Failure to comply with pension rules**

18. A superannuation income stream is taken to have ceased for income tax purposes if any of the requirements of the SISR 1994 relating to the payment of the superannuation income stream are not met in a financial year. This is the case even if a member remains entitled to receive a payment from the superannuation fund in relation to the purported superannuation income stream under the governing rules of the superannuation fund, or under general trust law concepts.

19. The trustee is taken *not* to have been paying a superannuation income stream at any time during the income year<sup>17</sup> in which the requirements are not met.

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<sup>12</sup> The term 'dependant beneficiary' refers to a person who, upon a member's death, is entitled to a pension. Subregulation 6.21(2A) of the SISR 1994 sets out who is entitled to receive a pension after a member's death.

<sup>13</sup> For further explanation see paragraphs 73 to 81 and Examples 1 to 3 in paragraphs 30 to 35 of this Ruling.

<sup>14</sup> For further explanation see paragraph 129 of this Ruling.

<sup>15</sup> For further explanation see paragraphs 88 to 90 of this Ruling.

<sup>16</sup> For further explanation see paragraphs 91 to 95 of this Ruling.

<sup>17</sup> This assumes the superannuation fund's income year corresponds with the financial year.

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20. If a superannuation income stream ceases for income tax purposes for the reasons outlined in paragraph 18 of this Ruling, it cannot recommence meeting the SISR requirements in a future year. This means it will not be a superannuation income stream for income tax purposes from the time of cessation, even if the member remains entitled to receive payments from the superannuation fund. For the member to receive a superannuation income stream, any income stream payable from the superannuation interest must cease (for example, by commutation) and a new superannuation income stream must commence under the principles in paragraphs 9 to 13 of this Ruling.<sup>18</sup>

#### ***By operation of the payment standards of the SISR 1994***

21. A superannuation income stream may cease due to specific requirements in the payment standards in the SISR 1994. For instance, under subregulation 6.21(2B) of the SISR 1994 a superannuation income stream must be cashed as a lump sum if it is being paid to a financially dependent child of the deceased member who attains the age of 25 (unless the child has a relevant disability). In this case, the superannuation income stream ceases at the earlier of the time specified, if any, in the governing rules, or on the day the child attains age 25.<sup>19</sup>

#### ***Exhaustion of capital***

22. A superannuation income stream ceases as no superannuation income stream benefits are payable when the capital supporting the superannuation income stream has been reduced to nil, and the member's right to have any other amounts applied (other than by way of contribution or roll over) to their superannuation interest has been exhausted.

#### ***Commutation***

23. A superannuation income stream ceases when a request from a member or a dependant beneficiary to *fully* commute their entitlements to future superannuation income stream benefits for an entitlement to a lump sum takes effect.

24. A request to fully commute a superannuation income stream takes effect as soon as the trustee's liability to pay periodic superannuation income stream benefits to the member or a dependant beneficiary is substituted with a liability to pay that member or dependant beneficiary a superannuation lump sum.

25. As the liability to pay the commutation lump sum arises as a consequence of the full commutation having taken effect, the superannuation income stream ceases before the time the lump sum payment to the member or dependant beneficiary is made.

26. The payment made to the member or dependant beneficiary following a full commutation of a superannuation income stream is a superannuation lump sum for income tax purposes as the superannuation interest no longer supports a superannuation income stream at the time the payment is made.<sup>20</sup>

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<sup>18</sup> For further explanation see paragraphs 96 to 101, and Example 6 in paragraphs 42 to 44, of this Ruling.

<sup>19</sup> This assumes that paragraph 6.21(2B)(a) of the SISR 1994 does not apply. Paragraph 6.21(2B)(a) requires the benefit to be cashed as a lump sum when the superannuation income stream is commuted, or its term expires (unless it is rolled over to commence a new superannuation income stream) if this is before the day on which the child attains the age of 25.

<sup>20</sup> For further explanation see paragraphs 115 to 118 of this Ruling.

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27. A superannuation income stream does *not* cease when a member or dependant beneficiary applies to partially commute some of their entitlements to future superannuation income stream benefits for an entitlement to a lump sum.

28. A payment made as the result of a partial commutation is treated as a superannuation lump sum for the purposes of the ITAA 1997 (other than Subdivision 295-F).<sup>21</sup>

### **Successor fund transfers**

28A. A superannuation income stream ceases for income tax purposes when the liability to pay superannuation income stream benefits is transferred without the consent of the member to another superannuation fund under a successor fund transfer.

28B. The superannuation income stream from the original fund will cease at the time of the transfer to the successor fund. This is because the member will no longer have any entitlement to superannuation income stream benefits from the superannuation interest in the original fund from the time of the transfer.

28C. If the successor fund is required to pay superannuation income stream benefits as a result of the successor fund transfer, they will arise from a new superannuation interest in the successor fund. This will result in a new superannuation income stream commencing to be paid to the member from the successor fund.<sup>21A</sup>

### **Death of a member**

29. A superannuation income stream ceases as soon as a member in receipt of the superannuation income stream dies, unless a dependant beneficiary of the deceased member is automatically entitled, under the governing rules of the superannuation fund or the rules of the superannuation income stream, to receive an income stream on the death of the member.<sup>21B</sup> If a dependant beneficiary of the deceased member is automatically entitled to receive the income stream upon the member's death, the superannuation income stream continues.<sup>22</sup>

### **Examples**

#### **Example 1: when a superannuation income stream commences – application date**

30. *A member of the XYZ Superannuation Fund applies, using the relevant product disclosure statement application form, to receive a superannuation income stream (an account-based pension) from their accumulated savings in the superannuation fund. The application form requires the member to specify the frequency of payments as monthly, quarterly, half-yearly or yearly and to specify the month in which the first payment is to be made. The governing rules of the superannuation fund also provide that the superannuation income stream payable will commence on the date of a member's application. The member applies on 9 July, to receive monthly payments of \$2,000 commencing in August, and the superannuation fund receives the application on 10 July.*

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<sup>21</sup> Subsection 307-65(2). For further explanation see paragraphs 119 and 120 of this Ruling.

<sup>21A</sup> For further explanation see paragraphs 120A to 120E, and Example 7 in paragraphs 44A to 44C of this Ruling.

<sup>21B</sup> One or more rights (whether contingent or not) that arise on a member's death may, for certain purposes, also be a superannuation income stream: see paragraph 307-70.02(1)(d) of the ITAR (1997 Act) 2021.

<sup>22</sup> For further explanation see paragraphs 121 to 127, and Example 5 in paragraphs 39 to 41 of this Ruling.



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31. The superannuation income stream will commence on 9 July as the governing rules of the superannuation fund state it will commence on the application date.

**Example 2: when a superannuation income stream commences – first day of the period**

32. The facts are as per Example 1, but the governing rules of the XYZ Superannuation Fund state that the superannuation income stream commences on the first day of the month after a member's application is received.

33. As the member's application is received on 10 July, the superannuation income stream will commence on 1 August.

**Example 3: when a superannuation income stream commences – cooling off period**

34. The facts are as per Example 1, but the governing rules of the XYZ Superannuation Fund state that the superannuation income stream cannot commence before the end of the statutory cooling off period that is imposed by the Corporations Act 2001.<sup>23</sup>

35. The superannuation income stream will commence the day after the cooling off period ends.

**Example 4: superannuation income stream cannot commence until all capital is received**

36. Fred is a member of the XYZ Superannuation Fund, where his interest is valued at \$500,000, and also a member of the DEF Superannuation Fund, where his interest is valued at \$1 million. Fred wishes to rollover the amount he has in the DEF Superannuation Fund to the XYZ Superannuation Fund to commence a superannuation income stream based on \$1.5 million.

37. Fred completes the application form attached to the XYZ Superannuation Fund's pension product disclosure statement on 10 July. In that form he requests the trustees of the XYZ Superannuation Fund to obtain a rollover of his benefits from the DEF Superannuation Fund.

38. On 15 July the XYZ Superannuation Fund provides the necessary information to the DEF Superannuation Fund and receives the rollover monies on 10 August. Fred's superannuation income stream, which is based on \$1.5 million, cannot commence before 10 August. That is, the superannuation income stream cannot commence before all amounts that are to form the capital of the income stream are paid into Fred's superannuation interest with the XYZ Superannuation Fund.

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<sup>23</sup> Division 5 of Part 7.9 of the *Corporations Act 2001* provides for a cooling off period in relation to the purchase of a financial product (such as a superannuation income stream). The standard period is 14 days, but can differ in particular circumstances.

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Status: **legally binding**

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**Example 5: payment of a superannuation income stream to a dependant beneficiary – no cessation**

39. David is a member of the EFG Superannuation Fund and has been married to Aggie for 20 years. The governing rules of the EFG Superannuation Fund provide that if a member is in receipt of a superannuation income stream when the member dies the income stream will continue to be paid to their spouse, provided that person had been the member's spouse for at least 3 years prior to the member's death.

40. David commences to receive a superannuation income stream on 1 July 2008. David dies on 1 September 2009. Aggie is automatically entitled to receive (and does receive) superannuation income stream benefits under the governing rules of the superannuation fund. There is, therefore, a continuing liability to make payments under that superannuation income stream.

41. In these circumstances there is no cessation of the superannuation income stream.

**Example 6: failure to meet minimum annual payment requirement – cessation of superannuation income stream**

42. Bill is a member of the JKL Superannuation Fund (a self-managed superannuation fund) and has commenced a superannuation income stream (an account-based pension). The minimum annual payments required under clause 1 of Schedule 7 of the SISR 1994 were made to Bill during the 2010–11 and 2011–12 years.<sup>24</sup> At the start of the 2012–13 year the trustee of the JKL Superannuation Fund calculates that the minimum annual payment required to be made under clause 1 of Schedule 7 of the SISR 1994 for that year is \$1,000.

43. During the 2012–13 year the trustee of the JKL Superannuation Fund makes a single payment to Bill of \$50. As this amount is less than the minimum annual payment required, the superannuation income stream has not met the requirements of the SISR 1994 for the 2012–13 year. The superannuation income stream ceases for income tax purposes at the beginning of this income year, and the \$50 payment is a superannuation lump sum.

44. This is the case even if Bill remains entitled to receive a payment from the superannuation fund in relation to the pension under the governing rules of the superannuation fund, or under general trust law concepts, in future years. For Bill to receive a superannuation income stream in future years, he must cease the income stream that did not meet the requirements of the SISR and commence a new superannuation income stream.

**Example 7: successor fund transfer – cessation of a superannuation income stream**

44A. ABC Super and DEF Super funds have agreed to enter a successor fund transfer under which the benefits of members of ABC Super will be transferred to DEF Super.

44B. A Deed is prepared by the parties setting out the obligations of both parties under the successor fund transfer. This includes DEF Super providing equivalent superannuation income streams to those currently payable to members of ABC Super. The Deed specifies the transfer will occur on 1 August 2023.

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<sup>24</sup> The self-managed superannuation fund's income year is the same as the financial year.

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Status: **legally binding**

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44C. On 1 August 2023:

- *the assets supporting superannuation income streams payable to the members of ABC Super, and corresponding obligations, are transferred to DEF Super*
- *the superannuation income streams cease for income tax purposes for each of the members of ABC Super*
- *the transfer results in an involuntary roll-over superannuation benefit to DEF Super in respect of each member, and*
- *new superannuation income streams commence for income tax purposes from DEF Super to its new members.*

#### **Date of effect**

45. This Ruling applies from 1 July 2007, subject to the commencement and application provisions of each Act or Regulation to which it refers. Appendix 2 to this Ruling summarises legislative changes that have been made to the provisions referred to in this Ruling since 1 July 2012.

46. [Omitted.]

47. [Omitted.]

48. [Omitted.]

49. The Ruling will not apply to taxpayers to the extent that it conflicts with the terms of settlement of a dispute agreed to before the date of issue of the Ruling (see paragraphs 75 to 77 of Taxation Ruling TR 2006/10).

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**Commissioner of Taxation**

31 July 2013

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Status: **not legally binding**


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## Appendix 1 – Explanation

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**❶** *This Explanation is provided as information to help you understand how the Commissioner's view has been reached. It does not form part of the binding public ruling.*

50. This Ruling explains:

- the meaning of 'superannuation income stream' (paragraphs 51 to 65)
- the relevance of when a superannuation income stream commences and ceases (paragraphs 66 to 72)
- when a superannuation income stream commences (paragraphs 73 to 90), and
- when a superannuation income stream ceases (paragraphs 91 to 129).

### The meaning of 'superannuation income stream'

51. The meaning of 'superannuation income stream' is directly relevant to the meaning of 'superannuation income stream benefit'. Under Divisions 301 through to 307, certain income tax consequences apply to a member of a superannuation fund who receives a superannuation income stream benefit. There are also particular income tax consequences that apply to a superannuation fund that is paying a superannuation income stream that is in the retirement phase.

52. A 'superannuation income stream' is defined in subsection 307-70(2), by reference to subsection 307-70.02(1) of the ITAR (1997 Act) 2021<sup>25</sup> and relevantly to this Ruling as:

- (a) an income stream that is taken to be:
- ...
- (ii) a pension for the purposes of the SIS Act in accordance with subregulation 1.06(1) of the SIS Regulations; or
- ...

53. It is clear from this definition that the meaning of 'superannuation income stream' is concerned with something that is an 'income stream' within the ordinary meaning of that expression.

54. As the term 'superannuation income stream benefit'<sup>26</sup> is separately defined, the term 'superannuation income stream' refers to the particular arrangement or product with the features as specified by the fund's governing rules, the agreement between the fund and the member and any other relevant documentation that, relevantly for this Ruling, is an account-based pension of the kind covered by subregulation 1.06(1) of the SISR 1994. The term 'superannuation income stream' does not refer to each particular payment made from the arrangement or product.

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<sup>25</sup> This Ruling does not specifically consider pensions that are covered by paragraphs (b) to (c) of the definition, or rights covered by paragraph (d) of the definition, and they have not been reproduced.

<sup>26</sup> Subsection 307-70(1) of the ITAA 1997, and section 307-70.01 of the ITAR (1997 Act) 2021.

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Status: **not legally binding**

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***The meaning of 'income stream'***

55. The term 'income stream' is not defined for the purposes of the ITAA 1997 and hence takes its ordinary meaning in the context in which it appears.<sup>27</sup>

56. There is no dictionary meaning of the composite term 'income stream'. However, one of several meanings given for 'income' by the *Macquarie Dictionary*<sup>28</sup> is:

the returns that come in periodically, especially annually, from one's work, property, business, etc; revenue; receipts

57. One of several meanings given for 'stream' is:

a continuous flow or succession of anything: *a stream of words*

57A. The Full Federal Court in *Commissioner of Taxation v Douglas* [2020] FCAFC 220 (*Douglas*) observed at [140] that the term 'income stream' in the context of the definition 'superannuation income stream' takes its ordinary meaning and is a series of payments, paid periodically even if not necessarily at regular intervals, which may be seen to relate to each other usually as having come from a particular source.

58. In light of the ordinary meaning of the term and the decision of the Full Federal Court in *Douglas*, the Commissioner considers the ordinary meaning of the phrase 'income stream' refers to a series of periodic<sup>29</sup> (including a series of annual) payments made from a member's interest in the superannuation fund. The payments that comprise the income stream must relate to each other such that it is possible to identify a series of payments to be made to the member over an identifiable period of time. The payments need not be periodic in the sense that they are always paid at the same, recurring intervals. The payments in a series may also vary in amount. However, a liability to make a single payment for one year will not satisfy as a liability to pay a member a series of payments and thus will not satisfy as an income stream.

***Requirement for an income stream to be a pension***

59. An income stream is only a 'superannuation income stream' if, relevantly for this Ruling<sup>30</sup>, it is capable of being taken to be a pension in accordance with subregulation 1.06(1) of the SISR 1994.<sup>31</sup> Subregulation 1.06(1) relevantly defines a benefit as a pension if:

- (a) it is provided under rules of a superannuation fund that:
  - (i) meet the standards of subregulation (9A) ...; and
  - (ii) do not permit the capital supporting the pension to be added to by way of contribution or rollover after the pension has commenced; and
- (b) in the case of rules to which paragraph (9A)(a) applies and that meet the standards of subregulation (9A) – the rules also meet the standards of regulation 1.07D.

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<sup>27</sup> *CIC Insurance Ltd v. Bankstown Football Club Ltd* (1997) 187 CLR 384 at 408; [1997] HCA 2.

<sup>28</sup> 4<sup>th</sup> Edn.

<sup>29</sup> This is consistent with Hill J (paragraph 28) in *Tubemakers of Australia Ltd v. Federal Commissioner of Taxation* [1993] FCA 175 at paragraph 28; (1993) 93 ATC 4207 at 4212; (1993) 25 ATR 183 at 189, stating that it is a necessary characteristic of a pension that it be periodical.

<sup>30</sup> See paragraphs 3 and 4 of this Ruling as to the scope of the Ruling.

<sup>31</sup> Subparagraph (a)(ii) of the definition of 'superannuation income stream' in subsection 307-70.02(1) of the ITAR (1997 Act) 2021.

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Status: **not legally binding**

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60. For a superannuation income stream that is an account-based pension the relevant requirements in subregulation 1.06(9A) of the SISR 1994 are as follows:

Rules for the provision of a benefit (the pension) meet the standards of this subregulation if the rules ensure that payment of the pension is made at least annually, and also ensure that:

- (a) for a pension in relation to which there is an account balance attributable to the beneficiary – the total of payments in any year (excluding payments by way of commutation but including payments under a payment split) is at least the amount calculated under clause 1 of Schedule 7; and
- ...
- (c) the pension is transferable to another person only on the death of the beneficiary (primary or reversionary, as the case may be); and
- (d) the capital value of the pension and the income from it cannot be used as a security for a borrowing.

61. The definition of a 'pension' under paragraph 1.06(9A)(a) of the SISR 1994 includes 2 fundamental requirements, being that:

- payment should occur *at least* annually, and
- a minimum amount must be paid to the member each year.

62. These requirements reflect the ordinary meaning of an income stream explained at paragraphs 55 to 58 of this Ruling, being a series of periodic (including a series of annual) payments from the member's interest in the superannuation fund.

63. In summary, if a member is entitled to a series of periodic payments, whether paid annually or more frequently, over an identifiable period of time from their interest in the superannuation fund, and that series of payments meets the requirements of subregulation 1.06(1), which includes paragraph 1.06(9A)(a) of the SISR 1994, it is a superannuation income stream.

### **Superannuation income stream benefits**

64. Each periodic (including annual) payment made as part of a series of periodic payments over an identifiable period of time from a superannuation interest that supports a superannuation income stream is a superannuation income stream benefit.<sup>32</sup>

65. A payment made as a result of a full commutation of a superannuation income stream is a superannuation lump sum. A payment made as a result of a partial commutation of a superannuation income stream is treated as a superannuation lump sum for the purposes of the ITAA 1997 (other than Subdivision 295-F).<sup>33</sup>

### **Relevance of when a superannuation income stream commences and ceases**

66. It is necessary to determine when a superannuation income stream commences or ceases as particular consequences flow from its commencement or cessation. Additionally, once the superannuation income stream commences it is payable (that is, there is an obligation to pay superannuation income stream benefits under that superannuation income stream) until such time as that superannuation income stream ceases.

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<sup>32</sup> See footnote 3 of this Ruling.

<sup>33</sup> Subsection 307-65(2). For further explanation see paragraphs 115 to 120 of this Ruling.

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Status: **not legally binding**

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### ***Divisions 301 through to 307***

67. Whether there is a superannuation income stream from which superannuation income stream benefits are being paid is relevant to the superannuation benefit taxing rules set out (primarily) in Divisions 301, 302 and 307.

68. These Divisions provide for different income tax treatment to apply to superannuation income stream benefits in a range of circumstances compared with the treatment that applies to superannuation lump sums.

69. For example, the proportioning rule<sup>34</sup> applies differently depending on whether a superannuation lump sum is paid from a superannuation interest that supports a superannuation income stream or a superannuation lump sum is paid from a superannuation interest that has never supported a superannuation income stream.

70. A further example is the separate interest rule in section 307-200.05 of the ITAR (1997 Act) 2021. This rule relevantly provides that if a superannuation income stream is payable<sup>35A</sup>, an amount that supports the superannuation income stream is always to be treated as a separate superannuation interest.<sup>36</sup>

71. Both these rules are central to the correct identification of the tax free and taxable components of payments made from that superannuation interest.

### ***Transfer balance cap provisions***

71A. Whether or not a superannuation income stream is in the retirement phase is also relevant for the transfer balance cap provisions in Division 294.<sup>36A</sup> These provisions limit the amount of superannuation income streams that are in the retirement phase. This, in turn, limits the amount of a superannuation provider's assessable income that is exempt from tax for that individual.<sup>36B</sup>

71B. A superannuation income stream is in the retirement phase at a time if a superannuation income stream benefit is payable from it at that time.<sup>36C</sup> However, in limited circumstances a superannuation income stream will not be in the retirement phase.<sup>36D</sup> For example, a superannuation income stream that is a transition to retirement income stream (payable to a person other than a reversionary beneficiary) will not be in the retirement phase unless the person has met a specified condition of release.<sup>36E</sup>

### ***Exempt current pension income provisions***

72. Further context is provided by Subdivision 295-F. Broadly, this Subdivision provides 2 mechanisms for exempting from the assessable income of a superannuation fund, ordinary or statutory income from fund assets that support the payment by the fund of a superannuation income stream that is in the retirement phase. Therefore, in determining if the exemption applies, it is necessary to consider whether superannuation income stream

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<sup>34</sup> Section 307-125. The proportioning rule is discussed further at paragraphs 83 to 86 of this Ruling.

<sup>35</sup> [Omitted.]

<sup>35A</sup> It is noted that paragraph (b) of this provision states '[or] will be payable, and is a deferred superannuation income stream covered by paragraph 307-70.02(1)(c)'. This has been omitted here as deferred income streams are not discussed in this Ruling.

<sup>36</sup> Further mention of this section is at paragraphs 88 to 90 of this Ruling.

<sup>36A</sup> See LCR 2016/9 for further explanation of the transfer balance cap.

<sup>36B</sup> See also paragraph 72 of this Ruling.

<sup>36C</sup> Subsection 307-80(1).

<sup>36D</sup> Subsections 307-80(3) and (4).

<sup>36E</sup> Subsection 307-80(3) and paragraph 307-80(2)(c).

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Status: **not legally binding**

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benefits are payable, and this in turn requires consideration of whether a superannuation income stream that is in the retirement phase has commenced and not ceased.

### **When a superannuation income stream commences**

73. There is no definition of 'commence' or 'commenced' or 'commencement day' as the terms relate to superannuation income streams in either the ITAA 1997 or the ITAR (1997 Act) 2021. However, the term 'commencement day' is defined in the SISR 1994 in relation to a pension or annuity. The 'commencement day'<sup>38</sup> for a pension or annuity is the first day of the period to which the first payment of the pension or annuity relates.

74. As the definition of superannuation income stream relies on there being a pension under subregulation 1.06(1) of the SISR 1994, it is consistent with the legislative framework that the time at which a superannuation income stream commences for income tax purposes is aligned with the 'commencement day' for such a pension under the SISR 1994. The concept of 'commencement day' is used throughout the pension standards set out in regulation 1.06 of the SISR 1994. The concept is also used in regulation 1.07D of the SISR 1994, which places restrictions on the commutation of superannuation pensions, and in Schedule 7 to the SISR 1994, which prescribes the minimum annual payment requirements that must be met for account-based pensions.

75. Aligning the approach with that taken for pensions in the SISR 1994, the 'commencement day' for a superannuation income stream is the first day of the period to which the first payment relates.

76. The first day of the period to which the first payment relates must be determined by reference to the governing rules of the superannuation fund, including documentation applying to the relevant superannuation income stream.<sup>39</sup> An example of documentation that is relevant in determining the commencement of a superannuation income stream is the product disclosure statement that may be required to be issued to members by the superannuation fund pursuant to the *Corporations Act 2001*.

77. If the governing rules of a superannuation fund provide that a superannuation income stream becomes immediately payable on the occurrence of a particular event, the commencement day for the superannuation income stream is the day on which that event occurs and not before.

78. The commencement day for a superannuation income stream may occur before the due date of the first payment depending on the terms and conditions upon which the superannuation income stream is payable.

79. However, the commencement day cannot occur prior to the day established as the commencement day in the terms and conditions agreed between the member and the trustee that will govern the superannuation income stream.

80. How the terms and conditions are agreed upon will depend on the particular facts and circumstances and will likely vary as between funds and products (superannuation income streams).

81. In some cases a member will apply to commence a pension by completing an application form specifying the frequency and amount of payments, or a default option, as appropriate. In other circumstances the fund may not have a formal application process.

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<sup>37</sup> [Omitted.].

<sup>38</sup> See footnote 9 of this Ruling.

<sup>39</sup> However, see also paragraphs 83 to 86 of this Ruling.



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Status: **not legally binding**

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However, a member will still be required to request that a superannuation income stream commences, and agree to its terms and conditions with the superannuation fund trustee. The commencement day cannot precede the member's request or application.

82. Examples 1 to 3 (paragraphs 30 to 35 of this Ruling) illustrate how the commencement day of a superannuation income stream is determined in different circumstances.

***Contributions and roll-overs to be made before the superannuation income stream commences***

83. The proportioning rule in section 307-125 first requires the tax free and taxable proportions of a superannuation interest to be determined. These proportions are then required to be applied to any benefit paid from the superannuation interest to ensure that the benefit contains the same proportions of tax free and taxable components as the superannuation interest from which it is paid.

84. Subsection 307-125(3) refers to the time at which the value of the tax free and taxable components of the superannuation interest must be determined. For a superannuation income stream benefit, or a superannuation benefit arising from the commutation of a superannuation income stream, the value of the tax free and taxable components must be determined at the time when the superannuation income stream commenced.<sup>40</sup> For superannuation lump sums from an interest that has never supported a superannuation income stream, the relevant time is just before the benefit is paid. This timing ensures that all payments from the superannuation income stream have the correct tax free and taxable components. It also assists superannuation funds to report correctly and withhold the correct amount of tax if necessary.

85. It necessarily follows that to ensure the tax free and taxable proportions are correctly determined for a superannuation income stream, the superannuation fund and the member must ensure that all contributions (including roll-over amounts) which are intended to form part of the capital supporting the superannuation income stream have been made before the superannuation income stream commences. A contribution is typically made when the amount is received, or ownership of an asset is obtained, or the fund otherwise obtains the benefit of an amount. It is not enough for there to be an agreement to make a contribution at a future time.<sup>41</sup>

86. Ensuring all contributions are received before the superannuation income stream commences is consistent with the explicit requirement in subparagraph 1.06(1)(a)(ii) of the SISR 1994<sup>42</sup>, which states that the rules of a superannuation fund must not permit the capital supporting a pension to be added to by way of contribution or rollover after the pension has commenced.

87. Example 4 (paragraphs 36 to 38 of this Ruling) illustrates that the commencement day cannot be before all amounts that are to form the capital of the income stream are paid into the superannuation interest.

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<sup>40</sup> The actual calculation of the tax free and taxable components can be done at any time before the first payment from the superannuation income stream is made.

<sup>41</sup> See further paragraphs 10 to 38 and 181 to 210 of Taxation Ruling TR 2010/1 *Income Tax: superannuation contributions*. This Ruling sets out the Commissioner's view on when a contribution is taken to have been made to a superannuation fund.

<sup>42</sup> Reproduced at paragraph 59 of this Ruling.

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Status: **not legally binding**

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***Effect of treating the amount supporting the superannuation income stream as a separate interest***

88. Section 307-200.05 of the ITAR (1997 Act) 2021 relevantly states that if a superannuation income stream is payable, an amount that supports the superannuation income stream is always to be treated as a separate superannuation interest.<sup>42A</sup> Section 307-200.05 applies for the purposes of the proportioning rule<sup>42B</sup> to ensure all payments made from the superannuation interest that supports the superannuation income stream have the same proportions of tax-free component and taxable component.

89. Former regulation 307-200.05 of the *Income Tax Assessment Regulations 1997* (ITAR 1997) used different terminology between 1 July 2007 and 1 July 2017. It stated that the amount was always to be treated as a separate superannuation interest from the time the superannuation income stream 'commenced'. It was suggested that the effect of this former provision was that once a superannuation income stream commenced, it only ceased once the amount in the relevant superannuation interest was exhausted. However, this interpretation did not give due regard to the terms of regulation 307-200.05 of the ITAR 1997 as they appeared in the legislation.

90. The operation of former regulation 307-200.05 of the ITAR 1997 was directed at ensuring that a separate superannuation interest was identified at the time a superannuation income stream commenced. It did not by its terms deem the amount supporting the superannuation income stream to be the superannuation income stream. Nor did it deem all payments from the superannuation interest, including those made after the superannuation income stream ceased, to be superannuation income stream benefits. In addition, current section 307-200.05 of the ITAR (1997 Act) 2021 refers to the provision applying where the superannuation income stream is 'payable', clarifying that it is not intended to apply where the superannuation income stream had ceased.

***When a superannuation income stream ceases***

91. Neither the ITAA 1997 nor the ITAR (1997 Act) 2021 sets out when a superannuation income stream ceases for income tax purposes.

92. As outlined at paragraph 52 of this Ruling, a superannuation income stream, as relevant to this Ruling, must meet the requirements of a pension in subregulation 1.06(1) of the SISR 1994. The pension standards contained in the SISR 1994 also do not explicitly prescribe when a pension ceases for regulatory purposes.

93. Whether a superannuation income stream has ceased must be determined by reference to the superannuation fund's governing rules, the relevant requirements of the SISR 1994 and the particular facts and circumstances of the payment of the member's, or dependant beneficiary's, benefits.

94. A superannuation income stream ceases when there is no longer a member who is entitled, or a dependant beneficiary of a member who is automatically entitled, to be paid a superannuation income stream benefit from a superannuation interest that supports a superannuation income stream.

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<sup>42A</sup> It is noted that paragraph (b) of this provision states '[or] will be payable, and is a deferred superannuation income stream covered by paragraph 307-70.02(1)(c)'. This has been omitted here as deferred income streams are not discussed in this Ruling.

<sup>42B</sup> Section 307-125.

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Status: **not legally binding**

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95. Further explanation<sup>43</sup> is provided below in relation to:

- failure to comply with the pension rules (paragraphs 96 to 102 of this Ruling)
- commutation (paragraphs 103 to 120 of this Ruling)
- successor fund transfers (paragraphs 120A to 120E of this Ruling), and
- death of a member (paragraphs 121 to 129 of this Ruling).

#### ***Failure to comply with pension rules***

96. A superannuation income stream must meet the requirements of subregulation 1.06(1) of the SISR 1994, and thus the requirements of subregulation 1.06(9A) of the SISR 1994, and the commutation standards in regulations 1.07D of SISR 1994.<sup>44</sup> If these requirements, as relevant to the circumstance, are not met there is not a superannuation income stream.

97. The requirements of subregulation 1.06(1) of the SISR 1994 state that for a benefit to be a pension it must be provided under the rules of a superannuation fund that meet various requirements, including the standards of subregulation 1.06(9A). If these standards are not met, the requirements of subregulation 1.06(1) will not be met.

98. Subregulation 1.06(9A)<sup>45</sup> of the SISR 1994 provides that the rules of the superannuation fund meet the relevant standards if the rules 'ensure' that the payment is made at least annually and 'ensure' that the other requirements as outlined in that subregulation are met.

99. The word 'ensure' is given the meaning in the *Macquarie Dictionary* as 'to make sure or certain to come, occur, etc'. As the rules of the superannuation fund must 'ensure' that the standards are met it is not enough for the rules of the superannuation fund to simply include a reference to, or reproduce the terms of, those standards. Rather, the rules (standards) must be met, or given effect to, in practice.<sup>45A</sup>

100. If a purported superannuation income stream fails to meet these requirements in a financial year, the superannuation income stream will be taken to have ceased at the start of that income year<sup>46</sup> for income tax purposes. Therefore, from the start of that income year the superannuation interest is no longer supporting a superannuation income stream and the payments made from that superannuation interest are not superannuation income stream benefits. Therefore, any payments made during that income year or subsequently are superannuation lump sums.

101. A new superannuation income stream can only commence from the superannuation interest where the rules of the superannuation fund *ensure* the payment is made at least annually and that the other requirements in subregulation 1.06(9A) of the SISR 1994 are met. To achieve this, any previous income stream payable from the interest must cease (for example, by commutation), and a new superannuation income stream must commence under the principles in paragraphs 9 to 13 of this Ruling. The

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<sup>43</sup> See paragraphs 21 (By operation of the payment standards of the SISR 1994) and 22 (Exhaustion of capital) of this Ruling for further circumstances in which a superannuation income stream ceases.

<sup>44</sup> See paragraphs 59 and 60 of this Ruling.

<sup>45</sup> As do subregulations 1.06(2) to (8) of the SISR 1994.

<sup>45A</sup> See also *Douglas* at [125].

<sup>46</sup> This assumes the fund's income year corresponds with the financial year.

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Status: **not legally binding**

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proportioning rule<sup>47</sup> must be applied to that new superannuation income stream when it commences.<sup>47A</sup>

102. Example 6 (paragraphs 42 to 44 of this Ruling) illustrates the effect of a superannuation income stream not meeting the minimum annual payment requirement.

### **Commutation**

103. A member may choose to commute their entitlements to future superannuation income stream benefits.

### **The meaning of commutation**

104. 'Commutation' is an integral concept of the tax and superannuation regulatory regimes that affects the payment of benefits from a superannuation interest that supports a superannuation income stream. As 'commutation' is not defined in either the ITAA 1997, the ITAR (1997 Act) 2021 or the SISR 1994 it takes its ordinary meaning in the context in which it appears.

105. The *Macquarie Dictionary* gives the meaning of 'commute' as 'to change (one kind of payment) into or for another, as by substitution'.

106. The concept of commuting a pension entitlement was considered by Deputy President Forgie in *Re Hammerton and Comcare Australia*<sup>48</sup> (*Re Hammerton*). This case considered the character of a payment received on the partial commutation of a pension. That is, whether it retained its character as a pension payment, or became a lump sum payment. It was held by Deputy President Forgie (at paragraphs 47 and 48) that:

It is implicit in this case that the commutation has had the effect of changing the essential nature of periodical pension payments into something else. That seems to me to accord with what happens when a single payment takes the place of an on-going periodic payment of pension. It also accords with the normal meaning of 'commute' i.e. 'to exchange for another or something else ... interchange 2. to change (one kind of payment) into or for another as by substitution ... to make a collective payment, esp. of a reduced amount, as an equivalent for a number of payments...' (Macquarie Dictionary).

It follows that Mr Hammerton has received a lump sum benefit under a superannuation scheme as well as being in receipt of ongoing pension payments.

107. The concept of commuting a pension entitlement was also considered by Member Allen in *Cooper and Commissioner of Taxation*<sup>49</sup> (*Cooper*). This case considered whether a lump sum payment of arrears of an invalidity pension, payable under the *Defence Force Retirement and Death Benefits Act 1973*, constituted a commutation of the pension. The question of whether the payment was a commutation of a superannuation pension was relevant in determining whether that lump sum payment was an 'eligible termination payment' for the purposes of former paragraph 27A(1)(d) of the *Income Tax Assessment Act 1936* (ITAA 1936). It was held by Member Allen (at paragraph 26) that the relevant payment was not in substitution or exchange for any right Mr Cooper had:

I agree with those submissions and would add that any commutation must be in accordance with the provisions of the superannuation scheme in question. In my opinion a commutation of a superannuation pension requires a beneficiary to make a conscious decision to

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<sup>47</sup> Paragraph 307-125(3)(a).

<sup>47A</sup> For the transfer balance cap implications of a superannuation income stream ceasing and a new one commencing, see LCR 2016/9.

<sup>48</sup> [1995] AATA 63; (1995) 21 AAR 204.

<sup>49</sup> [2003] AATA 296; 2003 ATC 2123; (2003) 52 ATR 1199.

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Status: **not legally binding**

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exchange future entitlements, or a mixture of past and future entitlements, for some other form of benefit (usually a lump sum) as permitted by the scheme. Mr Cooper made no such decision. Once the Authority had determined that he would be treated as having been retired on invalidity or incapacity grounds he became entitled to receive his arrears from the date of retirement and a future pension. The arrears could only be calculated and paid as a lump sum in the way that it was by the Authority. I have no reason to doubt Mr Barton's evidence of the calculations that he made or the appropriateness of his assumptions. I do not, however, believe that his evidence established that there was a commutation of a pension. ....On the evidence I consider that Mr Cooper received his full entitlement as to arrears and that receipt of arrears did not alter in any way the right to receive the pension in future in the same amount and on the same terms. There was no exchange or substitution of anything. There was no commutation of future pension entitlements and the payment of the arrears by a lump sum was not a commutation of past pension entitlements.

108. In each case consideration was given to whether there had been an exchange of entitlements to one thing (periodical payments) for another (a lump sum). Further, in *Cooper* Member Allen considered it necessary for the beneficiary to have made a conscious decision to exchange future entitlements for another form of benefit.

109. Although *Re Hammerton* concerned a pension comprised of periodical payments in the context of the *Safety Rehabilitation and Compensation Act 1988*, and *Cooper* considered a benefit that was accepted as satisfying the requirements for a pension under an earlier version of regulation 1.06 of the SISR 1994, they provide guidance in the current context as for a superannuation income stream to exist there must be a series of periodic payments and these in turn can be exchanged for a lump sum payment.

110. Consistent with the ordinary meaning of commutation and the approach in these cases, a member or a dependant beneficiary commutes their superannuation income stream if they consciously and validly exercise their right to exchange some or all of their entitlement to receive future superannuation income stream benefits for an entitlement to be paid a lump sum.<sup>49A</sup> For the trustee of the fund, the liability to pay that member or dependant beneficiary periodic superannuation income stream benefits is substituted with a liability to pay a lump sum.

#### *Determining if there has been a commutation*

111. A request to commute is valid if it is consistent with the governing rules of the superannuation fund, the agreement between the member and trustee under which the superannuation income stream is provided and the relevant requirements of the SISR 1994.<sup>50</sup> If a request to commute is not valid, a commutation does not happen.<sup>51</sup>

112. Whether and at what time a valid commutation takes effect is a question of fact to be determined from the particular circumstances. It must be clear that some or all of the member's right, or dependant beneficiary's right, to receive future superannuation income stream benefits has been exchanged for a right to receive a lump sum instead.

113. A member or dependant beneficiary may, subject to the governing rules and the SISR 1994 requirements, alter the amount of and/or the number of payments they wish to receive from their fund in any given year but any such alteration does not of itself evidence a commutation having been made. Only where the alteration results in an exchange of at

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<sup>49A</sup> A commutation will also be taken to have occurred where a superannuation fund has met its obligations under subsection 136-80(1) of Schedule 1 to the *Taxation Administration Act 1953* in respect of a commutation authority. See LCR 2016/9 for further information about commutation authorities.

<sup>50</sup> See for instance regulation 1.07D of the SISR 1994.

<sup>51</sup> A request to commute may be subject to certain conditions being satisfied, such as requiring the minimum pension payment to be made before commutation occurs. This would not prevent a commutation from occurring, or from being valid, but it may affect the time when the commutation occurs.

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Status: **not legally binding**

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least some of the member's or dependant beneficiary's right to receive future superannuation income stream benefits for a right to receive a lump sum will a commutation have been made.

114. If the alteration does not result in an exchange of the member's entitlements to receive periodic superannuation income stream benefits for an entitlement to receive a lump sum (that is, there is no commutation), the additional amounts and/or payments will be superannuation income stream benefits.

#### *Consequences upon a full commutation*

115. When a *full* commutation takes effect, a superannuation fund trustee no longer has a liability to provide any superannuation income stream benefits as this liability has been substituted with a liability to make a lump sum payment instead. The superannuation income stream therefore ceases at this time.

116. When this change in the nature of the trustee's liability occurs must be determined with reference to the governing rules of the superannuation fund and the terms of the superannuation income stream as they may prescribe a process to be followed in applying for a commutation. For example, the governing rules of a superannuation fund may state that a commutation will take effect once the commutation request has been accepted by the trustee.

117. However, irrespective of that process, a liability to pay the lump sum resulting from the commutation arises as a consequence of the full commutation taking effect and therefore the superannuation income stream ceases before the time the lump sum payment to the member of a dependant beneficiary is made.

118. As the payment resulting from the full commutation is made after the cessation of the superannuation income stream, it is a superannuation lump sum for income tax purposes.

#### *Consequences upon a partial commutation*

119. In contrast with a full commutation, a partial commutation occurs when a member or a dependant beneficiary consciously exercises their right to exchange something less than their full entitlement to receive future, periodic (including annual) superannuation income stream benefits for an entitlement to be paid a lump sum. As there is still an obligation to continue to pay superannuation income stream benefits, a partial commutation does not result in the cessation of the superannuation income stream.

120. If a partial commutation occurs the resulting payment is treated as a superannuation lump sum for the purposes of the ITAA 1997 (other than Subdivision 295-F).<sup>52A</sup>

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<sup>52</sup> [Omitted.]

<sup>52A</sup> Subsection 307-65(2).

<sup>53</sup> [Omitted.]

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Status: **not legally binding**

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### **Successor fund transfers**

120A. Generally, a member's superannuation interest in a superannuation fund can only be transferred with the member's consent. However, where a member is conferred equivalent rights in a new superannuation interest a successor fund transfer can occur without receiving a member's consent.<sup>53A</sup> The member will have 'equivalent rights' if the member's rights in the new superannuation interest with the successor fund are equivalent to what they had in the original superannuation fund.

120B. A successor fund transfer may take place where there is a merger between 2 superannuation funds. In this scenario, members will usually be advised that their entitlements in their current superannuation fund will be provided by a different trustee from the date of the transfer.

120C. Under the successor fund transfer, all the assets and liabilities of the original superannuation fund are transferred from the trustee of the original fund to the trustee of the successor fund.<sup>53B</sup> This includes where those assets and liabilities relate to superannuation income streams.

120D. The trustee of the original superannuation fund will no longer have a liability to pay superannuation income stream benefits after the successor fund transfer occurs. This means the member will no longer have an entitlement to receive the superannuation income stream benefits from their interest in the original fund, and the superannuation income stream will cease.

120E. Where the trustee of the successor fund assumes the liability to pay superannuation income stream benefits, a new superannuation income stream will be taken to commence from the interest in the successor fund on the first day of the period to which the first payment of the superannuation income stream relates.

### **Death of a member**

121. When a member dies they no longer have an entitlement to receive superannuation income stream benefits. The member's remaining entitlements must be paid out of the superannuation fund under the relevant regulations of the SISR 1994. The form of any benefit paid, and who it is paid to, depends on the governing rules of the superannuation fund, and the relevant requirements of the SISR 1994.<sup>53C</sup>

122. The superannuation fund's governing rules must ensure that an account-based pension is transferrable to another person only on the death of the member.<sup>54</sup> Additionally, the superannuation fund's governing rules will not meet the standard if the pension is transferred or paid to a person who is not a dependant beneficiary.<sup>55</sup> If a superannuation fund's governing rules do not comply with these requirements the relevant pension standard is not met and the product is not a pension for the purposes of the SISR 1994 and thus is not a superannuation income stream for income tax purposes.

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<sup>53A</sup> 'Successor fund' is defined in subsection 995-1(1).

<sup>53B</sup> An involuntary roll-over superannuation benefit may be paid to the successor fund under paragraph 306-12(a). There are specific rules that apply to involuntary rollover benefits in the ITAA 1997.

<sup>53C</sup> See Law Companion Ruling LCR 2017/3 *Superannuation reform: Superannuation death benefits and the transfer balance cap* for the transfer balance cap implications for death benefit recipients.

<sup>54</sup> Paragraph 1.06(9A)(c) of the SISR 1994.

<sup>55</sup> Subregulation 1.06(9B) of the SISR 1994. As to who is a dependant beneficiary see footnote 12 of this Ruling.

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Status: **not legally binding**

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123. The rules for the cashing of benefits on death in Division 6.3 of the SISR 1994 are consistent with this. Benefits for a dependant beneficiary can be cashed as:

- a single lump sum, or as an interim lump sum and a final lump sum<sup>55A</sup>, or
- one or more pensions or annuity products<sup>56</sup>, each of which is a superannuation income stream that is in the retirement phase.

Benefits paid to a person who is not a dependant beneficiary cannot be cashed as a superannuation income stream.<sup>57</sup>

#### *Payment of a superannuation income stream to a dependant beneficiary*

124. Although superannuation entitlements are personal and not normally transferable to another person, the relevant provisions of the SISA 1993 and the SISR 1994, as discussed, recognise that a member's superannuation benefits can be paid to certain other persons on the member's death. Thus a superannuation income stream (that is a pension under subregulation 1.06(1) of the SISR 1994) can be transferred to certain dependant beneficiaries on the death of the member.

125. If the entitlement to a superannuation income stream automatically transfers to a dependant beneficiary on the death of a member, the superannuation income stream does not cease. There is a continuing liability to make the payments under that superannuation income stream albeit the recipient of those payments has changed.

126. A superannuation income stream automatically transfers to a dependant beneficiary on the death of a member if the governing rules of the superannuation fund, or other rules governing the superannuation income stream, specify that this will occur. The rules must specify both the person to whom the benefit will become payable and that it will be paid in the form of a superannuation income stream. The rules may also specify a class of person (for example, spouse) to whom the benefit will become payable. It is not sufficient that a superannuation income stream becomes payable to a beneficiary of a deceased member only because of a discretion (or power) granted to the trustee by the governing rules of the superannuation fund. The discretion (or power) may relate to determining either who will receive the deceased member's benefits, or the form in which the benefits will be payable.

127. If a superannuation income stream does not automatically transfer to a dependant beneficiary on the death of a member, for example, if the trustee has the discretion to pay either a superannuation lump sum or a superannuation income stream to a dependant beneficiary, the superannuation income stream ceases on the member's death.<sup>57A</sup> If the trustee ultimately decides to pay the relevant dependant beneficiary a superannuation income stream from the remaining amount of the deceased's superannuation interest then a new superannuation income stream commences.

128. Example 5 (at paragraphs 39 to 41 of this Ruling) illustrates a situation where a superannuation income stream automatically transfers to a dependant beneficiary.

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<sup>55A</sup> Paragraph 6.21(2)(a) of the SISR 1994. For a limited set of superannuation interests, benefits may also be cashed as a series of superannuation lump sums: see paragraph 6.21(2)(aa) of the SISR 1994.

<sup>56</sup> Paragraph 6.21(2)(b) of the SISR 1994.

<sup>57</sup> Subregulation 6.21(2A) of the SISR 1994.

<sup>57A</sup> One or more rights (whether contingent or not) that arise on a member's death may, for certain purposes, also be a superannuation income stream where the deceased was receiving a superannuation income stream: see paragraph 307-70.02(1)(d) of the ITAR (1997 Act) 2021. The effect of this expanded definition is to extend the application of the exempt current pension income provisions until the new superannuation income stream payable to the relevant dependant beneficiary commences, or a superannuation lump sum is paid from the deceased's superannuation interest.



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*A superannuation income stream may be payable if no superannuation income stream benefits are actually paid*

129. As it is the member's entitlement to a series of periodic (including a series of annual) payments made over an identifiable period of time that must be established for a superannuation income stream to be payable, a superannuation income stream may be payable for a period of time even if the member dies before any payment is due to be made under the terms of that arrangement. That is, based on the member's entitlement to a series of related payments over an identifiable period of time there is a superannuation income stream in existence up to the time of the member's death.<sup>58</sup>

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<sup>58</sup> This assumes that there is no dependant beneficiary who is automatically entitled to that income stream as discussed at paragraphs 124 to 127 of this Ruling.

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## Appendix 2 – Legislative changes

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**❶** *This Explanation is provided as information to help you understand how the Commissioner's view has been reached. It does not form part of the binding public ruling.*

130. A number of legislative changes have been enacted since the date this Ruling was originally published. While these legislative changes do not affect the Commissioner's view outlined in this Ruling, they are summarised below to provide an understanding of what legislation was in effect at a given time.

### 1 July 2007 to 30 June 2012

131. The legislative references in the original Ruling reflected the law applicable for this period including in relation to the following:

- The definition of 'superannuation income stream' was contained in subsection 307-70(2) and regulation 995-1.01 of the ITAR 1997.
- Taxpayers could make an election for a payment from an interest that supported a superannuation income stream to be a superannuation lump sum under regulation 995-1.03 of the ITAR 1997.
- The 'regulations' to the ITAA 1997 were all contained in the ITAR 1997.

132. However, the definition of 'superannuation income stream benefit' was later amended for this period with retrospective effect from 1 July 2007.<sup>59</sup> This means for this period:

- The definition of 'superannuation income stream benefit' was contained in subsection 307-70(1) and regulation 307-70.01 of the ITAR 1997.<sup>60</sup>

### 1 July 2012 to 30 June 2017

133. Legislative amendments effective from the 2012–13 income year:

- renumbered regulation 995-1.01 of the ITAR 1997, which contained the definition of 'superannuation income stream', to subregulation 995-1.01(1), and
- expanded the application of the exempt current pension income (ECPI) provisions after the death of a member who was receiving a superannuation income stream.<sup>61</sup>

134. The original amendments altered the definition of superannuation income stream benefit to include the expanded application of the ECPI provisions after the death of a member who was receiving a superannuation income stream.<sup>62</sup>

135. These changes were later amended in 2018 by expanding the definition of superannuation income stream for the purposes of applying the ECPI provisions after the

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<sup>59</sup> *Treasury Laws Amendment (Miscellaneous Amendments) Regulations 2018.*

<sup>60</sup> Prior to the retrospective amendment, the definition of superannuation income stream benefit was contained in regulation 995-1.01 of the ITAR 1997 for the 2007–08 to 2011–12 income years.

<sup>61</sup> *Income Tax Assessment Amendment (Superannuation Measures No. 1) Regulation 2013.*

<sup>62</sup> The definition of superannuation income stream benefit was contained in subregulations 995-1.01(2) to (5) of the ITAR 1997 but was retrospectively amended in 2018. See paragraph 132 of this Ruling.

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death of a member who was receiving a superannuation income stream, with a retrospective date of effect from the 2012–13 income year.<sup>63</sup>

136. This means for this period the expanded definition for ECPI purposes was covered under:

- paragraph (d) of the definition of ‘superannuation income stream’ under subsection 995-1.01(1) of the ITAR 1997, and
- subregulations 995-1.01(2) to (5) of the ITAR 1997.

### **1 July 2017 to 30 June 2021**

137. Significant legislative changes were made which generally applied from 1 July 2017.<sup>64</sup>

138. These changes included the following:

- The election contained in regulation 995-1.03 of the ITAR 1997 was removed for payments made on or after 1 July 2017.
- Regulation 307-200.05 of the ITAR 1997 was reworded to state that an amount supporting a superannuation income stream was to be treated as a separate interest from when it is ‘payable’ rather than from when it ‘commenced’.
- Section 307-65 was renumbered to subsection 307-65(1), and subsection 307-65(2) was inserted to treat partial commutations as superannuation lump sums for the purposes of the ITAA 1997 (except for Division 295-F).
- The requirements for an account-based pension in paragraph 1.06(9A)(a) of the SISR 1994 were updated so that the minimum annual payment amount required to be paid excluded payments by way of commutation but included payments under a payment split (previously it stated ‘including under a payment split but excluding amounts rolled over’).
- Paragraph 6.21(2)(b) of the SISR 1994 was amended to include the requirement that death benefits cashed as one or more pensions or annuities must each be a superannuation income stream that is in the retirement phase.
- Division 294 was inserted to introduce the transfer balance cap with effect from 1 July 2017, limiting the amount of superannuation a fund member can have in the retirement phase.
- Amendments limited the exemption of assessable income under Subdivision 295-F to situations where fund assets supported the payment of retirement phase superannuation income stream benefits by the fund.

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<sup>63</sup> *Treasury Laws Amendment (Miscellaneous Amendments) Regulations 2018.*

<sup>64</sup> *Treasury Laws Amendment (Fair and Sustainable Superannuation) Act 2016, Treasury Laws Amendment (Fair and Sustainable Superannuation) Regulations 2017 and Treasury Laws Amendment (2017 Measures No. 1) Regulations 2017.* It should be noted that the amendments listed below to section 307-65 and Subdivision 295-F applied in relation to the 2017–18 income years and later income years. There are also certain limited exceptions to the application of Division 294 set out in the *Income Tax (Transitional Provisions) Act 1997*.

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**1 July 2021 to present**

139. On 1 April 2021 the ITAR 1997 sunset. The regulations were rewritten and replaced by the ITAR (1997 Act) 2021. The ITAR (1997 Act) 2021 take effect from the start of the first income year after 1 July 2021 for each taxpayer.

140. The meanings of terms in the ITAR (1997 Act) 2021 are not intended to change from those equivalent terms in the ITAR 1997. The provisions are also generally contained in similarly numbered provisions to the ITAR 1997, for instance former regulation 307-70.01 in the ITAR 1997 is now reflected in section 307-70.01 in the ITAR (1997 Act) 2021.

141. However, some renumbering did occur, specifically:

- The definition of 'superannuation income stream' that was previously in subregulation 995-1.01(1) of the ITAR 1997 is now contained in section 307-70.02 of the ITAR (1997 Act) 2021.
- The expanded definition of 'superannuation income stream' for ECPI purposes has moved from paragraph (d) of the previous definition of superannuation income stream under subsection 995-1.01(1) of the ITAR 1997, and subregulations 995-1.01(2) to (5) of the ITAR 1997. It is now contained in paragraph (d) of the superannuation income stream definition in subsection 307-70.02(1), and subsections 307-70.02(2) to 307-70.02(6) of the ITAR (1997 Act) 2021.

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TR 2013/5DC1

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