

LCR 2016/9 - Superannuation reform: transfer balance cap

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Law Companion Ruling

Superannuation reform: transfer balance cap

❗ Relying on this Ruling

This publication is a public ruling for the purposes of the *Taxation Administration Act 1953*, except to the extent the Ruling considers excess transfer balance tax.

To the extent it is a public ruling, if this Ruling applies to you, and you correctly rely on it in good faith, 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.

Statements about excess transfer balance tax are not legally binding on the Commissioner. However, if you act in accordance with the view expressed in good faith, the Commissioner will endeavour to stand by these statements in applying the law.

(Note: this is a consolidated version of this document. Refer to the ATO Legal database (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. When an individual accesses their superannuation (for example, because they have retired), they may take it in the form of a superannuation lump sum, a superannuation income stream (such as a pension), or a combination of the 2.
2. If they commence a superannuation income stream, income earned on the ongoing investment of the capital (the superannuation interest) that supports the superannuation income stream is exempt from tax. This exemption applies to the superannuation income stream provider.
3. The *Treasury Laws Amendment (Fair and Sustainable Superannuation) Act 2016* (the Act) imposes a transfer balance cap from 1 July 2017 to limit the amount of capital individuals can transfer to the retirement phase to support superannuation income streams. This, in turn, limits the amount of superannuation income stream provider earnings that are exempt from tax.
4. This Ruling provides guidance on how the transfer balance cap (set at \$1.6 million for the 2017–18 financial year) operates for account-based superannuation income stream products.
5. It provides specific guidance on the following concepts:
 - the general transfer balance cap, your transfer balance account, your transfer balance and your personal transfer balance cap (**your transfer balance cap**)
 - the consequences of your transfer balance exceeding your transfer balance cap, resulting in an ‘excess transfer balance’ including:
 - the excess transfer balance tax and how this is calculated
 - when the Commissioner will issue an excess transfer balance determination (**determination**), and

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- the effect of transfers, commutations, or both, on your transfer balance.

6. Special rules apply to capped defined benefit income streams.¹

7. All legislative references in this Ruling are to the *Income Tax Assessment Act 1997* unless otherwise stated.

Date of effect

7A. This Ruling applies both before and after the date of issue, subject to the commencement and application of each Act to which it refers.

Transfer balance account and transfer balance cap

8. The Act introduces the concepts of a transfer balance account², transfer balance³, the general transfer balance cap⁴ and a personal transfer balance cap.⁵

9. The purpose of your transfer balance account is to track the amounts you have transferred to the retirement phase. Your transfer balance allows you to determine whether or not you have exceeded your transfer balance cap on any given day.

10. [Omitted.]

Transfer balance account

11. You commence to have a transfer balance account on the later of 1 July 2017 and the day you first start to be a retirement phase recipient of a superannuation income stream. If you are a retirement phase recipient of a superannuation income stream just before 1 July 2017 (at the end of 30 June 2017), your transfer balance account commences on 1 July 2017.⁶

11A. You are a retirement phase recipient of a superannuation income stream at a time if:

- (a) the superannuation income stream is in the retirement phase at that time⁷, and
- (b) a superannuation income stream benefit from the superannuation income stream is payable (that is, an entitlement to be paid commences) to you at that time⁸ or, if the income stream is a deferred superannuation income stream, the benefit will become payable to you after that time.⁹

¹ Refer to Law Companion Rulings LCR 2016/10 *Superannuation reform: capped defined benefit income streams - non commutable, lifetime pensions and lifetime annuities* and LCR 2017/1 *Superannuation reform: capped defined benefit income streams - pensions or annuities paid from non-commutable, life expectancy or market-linked products* for further guidance on these rules.

² Section 294-15.

³ Subsection 294-30(2).

⁴ Subsection 294-35(3).

⁵ Subsections 294-35(1) and (2).

⁶ Subsection 294-15(2).

⁷ Paragraph 294-20(1)(a) and section 307-80.

⁸ Paragraph 294-20(1)(b).

⁹ Subsection 294-20(2).

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12. You continue to have a transfer balance account even if you subsequently cease to be a retirement phase recipient of a superannuation income stream. You only cease to have a transfer balance account when you die.¹⁰

13. Subject to paragraph 15 of this Ruling, a superannuation income stream is in the retirement phase when a superannuation income stream benefit is currently payable.¹¹ If it is a deferred superannuation income stream¹², that income stream is in the retirement phase when a person has met a relevant condition of release (retirement, terminal medical condition, permanent incapacity or attaining age 65).¹³

13A. A superannuation income stream is not in the retirement phase if:

- it is the subject of a commutation authority issued by the Commissioner^{13A}
- the superannuation stream provider is required to pay a superannuation lump sum but fails to do so within 60 days after the commutation authority is issued^{13B}, and
- the income year is the income year in which that 60 days has elapsed (or a later income year).^{13C}

14. [Omitted.]

15. Further, a transition to retirement income stream (TRIS) is not in the retirement phase unless a superannuation income stream benefit is currently payable from it and the recipient:

- is 65 years old or older, or
- has met a relevant condition of release with a nil cashing restriction (retirement, terminal medical condition, permanent incapacity) and they have notified the superannuation provider for the TRIS of that fact, or
- is in receipt of the TRIS as a reversionary beneficiary.¹⁴

15AA. From 1 July 2017, superannuation income stream providers will be taxed on earnings made from assets supporting a TRIS that is not in the retirement phase.

15AB. For the purposes of this Ruling, the reference to a superannuation income stream will always be to a superannuation income stream in the retirement phase unless otherwise stated.

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

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

¹¹ Section 307-80.

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

¹³ Subsection 307-80(2).

^{13A} See Subdivision 136-B of Schedule 1 to the *Taxation Administration Act 1953* (TAA) and paragraph 307-80(4)(a).

^{13B} See section 136-80 of Schedule 1 to the TAA and paragraph 307-80(4)(b).

^{13C} Paragraph 307-80(4)(c).

¹⁴ Subsection 307-80(3).

¹⁵ Schedule 8 of the Act removes the earnings tax exemption in respect of TRIS.

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

General transfer balance cap and personal transfer balance cap

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

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

17. Your transfer balance cap is subject to proportional indexation¹⁹ in line with increases in the general transfer balance cap. However, if your transfer balance has ever equalled or exceeded your transfer balance cap at the end of a day, you will permanently lose your entitlement to increase your transfer balance cap by indexation in future years.²⁰

17A. Your personal transfer balance cap will be proportionally indexed based on the highest balance of your transfer balance account. The amount by which your personal transfer balance cap is increased is worked out by multiplying your ‘unused cap percentage’ by the ‘indexation increase’ of the general transfer balance cap.^{20A}

17B. Where the:

- (a) indexation increase – means the amount by which the general transfer balance cap for the financial year increased as a result of indexation, and
- (b) unused cap percentage is worked out by^{20B}
 - (i) identifying the highest transfer balance in your transfer balance account at the end of any day up to the end of the previous financial year
 - (ii) identifying the day on which the transfer balance account had that transfer balance at the end of the day, or, if your transfer balance account had that transfer balance at the end of more than one day, the earliest of those days
 - (iii) expressing the highest transfer balance outlined in subparagraph (i) as a percentage of the transfer balance cap (rounded down to the nearest whole number) on the day identified in subparagraph (ii), and
 - (iv) subtracting the result from 100%.

17C. However, if the highest transfer balance in your transfer balance account at the end of any day up to the end of the previous financial year is less than nil, then the unused cap percentage is taken to be 100%.^{20C}

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

¹⁸ Subsection 294-35(3), section 960-265 and section 960-285.

¹⁹ Subsection 294-40.

²⁰ Paragraph 294-40(1)(b) and the meaning of ‘unused cap percentage’ in subsection 294-40(2).

^{20A} See subsection 294-40(2).

^{20B} See subsection 294-40(2).

^{20C} Subsection 294-40(3).

Example A1 – Personal transfer balance cap proportional indexation

17D. Ryuk commences a superannuation income stream on 1 March 2018 valued at \$1.4 million. His transfer balance account commences on this date and is credited with \$1.4 million.

17E. Ryuk's personal transfer balance cap is equal to the general transfer balance cap for the financial year in which the account commenced, which is \$1.6 million. Ryuk has a transfer balance of \$1.4 million and available cap space of \$200,000. No further credit or debit events occur in Ryuk's transfer balance account at this time.

17F. On 1 July 2021, the general transfer balance cap is increased as a result of indexation by \$100,000 to \$1.7 million. Ryuk's personal transfer balance cap is indexed proportionally, based on his remaining cap space.

17G. Ryuk's personal transfer balance cap is calculated as follows:

- unused cap percentage: $\$1.4 \text{ million (highest balance)} \div \$1.6 \text{ million} = 0.875$
- expressed as a percentage and rounded down = 87%
- subtract 87% from 100% = 13%
- transfer balance increase: $\$100,000 \times 13\% = \$13,000$.

17H. On 1 July 2021, Ryuk's personal transfer balance cap is indexed to \$1.613 million. Ryuk has available cap space of \$213,000, being the difference between Ryuk's indexed personal transfer balance cap of \$1.613 million and his transfer balance of \$1.4 million.

17I. On 31 December 2022, Ryuk commenced another superannuation income stream. The value of the superannuation interest that supports this new income stream is \$125,000. Ryuk's transfer balance account is credited with \$125,000, taking his transfer balance to \$1.525 million.

17J. On 1 July 2023, the general transfer balance cap is increased again due to indexation, this time by \$200,000 to \$1.9 million. Ryuk's personal transfer balance cap is indexed proportionally, based on his remaining cap space.

17K. Ryuk's personal transfer balance cap is now calculated as follows:

- unused cap percentage: $\$1.525 \text{ million (highest balance)} \div \$1.613 \text{ million} = 0.945$
- expressed as a percentage and rounded down = 94%
- subtract 94% from 100% = 6%
- transfer balance increase: $\$200,000 \times 6\% = \$12,000$.

17L. On 1 July 2023, Ryuk's personal transfer balance cap is indexed by a further \$12,000 to \$1.625 million ($\$1.613 \text{ million} + \$12,000 = \$1.625 \text{ million}$). Ryuk now has available cap space of \$100,000, being the difference between Ryuk's further indexed personal transfer balance cap of \$1.625 million and his transfer balance of \$1.525 million.

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Example A2 – Personal transfer balance cap not entitled to indexation

17M. *Using Example A1 of this Ruling, except Ryuk's superannuation income stream is instead valued at \$1.6 million, Ryuk's transfer balance account commences on 1 March 2018 and is credited with \$1.6 million.*

17N. *Ryuk's personal transfer balance cap is equal to the general transfer balance cap for the financial year in which the account commenced, which is \$1.6 million.*

17O. *On 1 July 2021, although the general transfer balance cap is increased to \$1.7 million, Ryuk's personal transfer balance cap will remain at \$1.6 million. He is not entitled to indexation on 1 July 2021 (or any future indexation of the general transfer balance cap) because his transfer balance equalled his personal transfer balance cap.*

18. [Omitted.]

19. [Omitted.]

Transfer balance

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

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

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

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

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

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

24A. That means a superannuation interest that supports a superannuation income stream that increases in value because of investment earnings²⁴ does not have its growth reflected in your transfer balance account. Similarly, a superannuation interest that supports a superannuation income stream that decreases in value because of investment

²¹ Subsection 294-30(2).

²² Subsection 294-30(1).

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

²⁴ Such as capital gains, interest and dividends.

losses²⁵ or a drawdown of superannuation income stream benefits does not have that reduction reflected in your transfer balance account.

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

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

Example 1 – Transfer balance account credits and debits

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

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

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

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

30. Figure 1 of this Ruling details Darius's transfer balance account and the debits and credits arising from the transactions detailed in paragraphs 26 to 29 of this Ruling.

Figure 1: Darius' transfer balance account

Date	Description	Debit	Credit	Transfer balance
1 July 2018	Commence pension A		\$1.1 million	\$1.1 million
7 July 2020	Commutes pension A	\$1 million		\$0.1 million

Example 1A – TRIS in the retirement phase on 1 July 2017

30A. Robert commences a TRIS in 2008 when he was 58. On 1 July 2017, Robert still receives superannuation income stream benefits from the TRIS and the value of the superannuation interest supporting the TRIS just before 1 July 2017 is \$900,000. Robert has no other superannuation interests.

30B. As Robert was over 65 on 1 July 2017, the TRIS is in the retirement phase and Robert is a retirement phase recipient. Robert commences to have a transfer balance

²⁵ Such as capital losses.

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account on 1 July 2017 and a credit of \$900,000 arises in the transfer balance account on 1 July 2017.

Example 1B – TRIS in the retirement phase after 1 July 2017

30C. *Raj commences a TRIS on 1 July 2018 at age 57 with \$1.2 million. The TRIS is not in the retirement phase at that time as Raj does not meet a relevant condition of release with a nil cashing restriction. As Raj has no superannuation income streams in the retirement phase, he is not a retirement phase recipient and does not have a transfer balance account.*

30D. *Raj retires on 30 June 2019, meeting a relevant condition of release, and notifies the superannuation provider that pays the TRIS of his retirement on 15 July 2019. The TRIS is in the retirement phase on 15 July 2019 (the time of notifying the superannuation provider of his retirement) and Raj commences to have a transfer balance account on 15 July 2019. The credit that arises in his transfer balance account is equal to the value of the superannuation interest supporting the TRIS on 15 July 2019.*

Credits that arise in your transfer balance account

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

- you becoming a retirement phase recipient of a superannuation income stream²⁶
- notional earnings that accrue on excess transfer balance amounts²⁷
- certain payments made in respect of particular limited recourse borrowing arrangements^{27A}
- other circumstances as provided for by the regulations.^{27B}

31A. The regulations may provide that certain credits do not apply to a specified class of superannuation income streams.^{27C}

Credit amounts for reversionary beneficiary and death benefits

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

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

²⁷ Item 3 in the table in subsection 294-25(1).

^{27A} Item 4 of the table in subsection 294-25(1) and section 294-55.

^{27B} Item 5 of the table in subsection 294-25(1).

^{27C} Subsection 294-25(3).

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

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

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

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

34A. See Law Companion Ruling LCR 2017/3 *Superannuation reform: Superannuation death benefits and the transfer balance cap* for more detailed guidance on reversionary beneficiaries and death benefit income streams.

Example 2 – Reversionary beneficiary

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

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

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

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

39. [Omitted.]

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

Credit amounts for payments under certain limited recourse borrowing arrangements

39A. A credit will arise in your transfer balance account in relation to a payment made by a superannuation provider under a limited recourse borrowing arrangement (LRBA) that was entered into on or after 1 July 2017 where:

- the payment results in an increase in the value of your superannuation interest that supports your superannuation income stream that is in the retirement phase, and
- your superannuation interest is in a self-managed superannuation fund (or another complying superannuation fund with less than 7 members).^{28A}

39B. Where an LRBA that is covered by subsection 67A(1) of the *Superannuation Industry (Supervision) Act 1993* was entered into before 1 July 2017 and is refinanced on or after 1 July 2017, the refinanced LRBA is treated as being entered into before 1 July 2017 for the purpose of working out whether you have a credit if:

- the refinanced LRBA is secured by the same assets as the original LRBA, and
- the amount borrowed under the refinanced LRBA at the time it is entered into is equal to or less than the outstanding balance of the borrowing under the original LRBA.^{28B}

39C. An increase in the value of your superannuation interest supporting your superannuation income stream in the retirement phase will occur where a payment in respect of the LRBA is made fully, or partially, from assets that are supporting superannuation interests that are not in the retirement phase. For example, this may occur where the assets of the superannuation fund are allocated to specific superannuation interests that are supporting superannuation income streams.

39D. The credit arises at the time of the payment and is equal to the amount of the increase in the value of your superannuation interest supporting your superannuation income stream.^{28C} For the purposes of calculating the amount of the credit, you are not required to separately determine the market value of your superannuation interest as the increase in value is determined by reference to the repayment amount.

39E. If you are the only member of the superannuation fund, the increase in value of the superannuation interest is the repayment amount and thus the credit that arises is equal to the repayment amount. Where the increase in the value affects more than one member's interest in the retirement phase, it is necessary to apportion the credit across the different members' interests on a fair and reasonable basis. Whether the apportionment methodology is on a fair and reasonable basis will depend on the facts and circumstances of each case. One example of a methodology that the Commissioner considers is fair and reasonable is where the proportions are based on the value of the members' superannuation interests that are in the retirement phase as at 30 June of the immediate prior financial year provided that there have been no significant changes in value between that date and determining the amount of applicable credit. See Examples 2A and 2B of this Ruling which provide a method of apportioning the credit for account-based retirement phase interests.

^{28A} Item 4 of the table in subsection 294-25(1) and section 294-55.

^{28B} Section 294-55 of the *Income Tax (Transitional Provisions) Act 1997*.

^{28C} Item 4 of the table in subsection 294-25(1) and section 294-55.

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39F. As explained in paragraphs 24 to 24B of this Ruling, increases in the value of your superannuation interest from other factors other than a payment in respect of an LRBA (such as capital appreciation) will not increase your transfer balance.

Example 2A – LRBA – apportionment of credit

39G. *Ram and Madhu are the only members of an SMSF which has allocated specific assets to support the superannuation income streams payable by the SMSF. They both have account-based pensions and accumulation interests.*

39H. *On 30 June 2018, Ram's retirement phase interest is valued at \$400,000 and Madhu's retirement phase interest is valued at \$600,000.*

39I. *The SMSF entered into an LRBA on 1 August 2018 to acquire an asset that solely supports the account-based pensions of both Ram and Madhu. The fund makes a monthly repayment of \$10,000 from accumulation interests of both Ram and Madhu towards the borrowing under the LRBA on 1 September 2018. There have been no significant changes in value of the superannuation interest in the retirement phase prior to the repayment.*

39J. *The transfer balance credits that arise in Ram and Madhu's transfer balance account on 1 September 2018, is apportioned in a fair and reasonable manner in accordance with the proportion of their retirement phase interests in the SMSF. This is calculated as follows:*

Ram's transfer balance credit:

$$\frac{\$400,000}{(\$400,000 + \$600,000)} \times \$10,000 = \$4,000$$

Madhu's transfer balance credit:

$$\frac{\$600,000}{(\$400,000 + \$600,000)} \times \$10,000 = \$6,000$$

Example 2B – Apportionment of credit – payment after partial commutation

39K. *Further to Example 2A of this Ruling, on 1 April 2019, Ram commutes \$200,000 of his retirement phase income stream out of superannuation.*

39L. *The SMSF makes a monthly repayment on 1 April 2019, of \$10,000 from accumulation interests of both Ram and Madhu, towards the borrowing under the LRBA.*

39M. *The commutation that Ram made on 1 April 2019 of \$200,000 means that the value of his interest in the retirement phase is significantly different to the value of his interest in the retirement phase as at 30 June 2018. For the purposes of the apportionment methodology, it would be reasonable to adjust the 30 June 2018 value of Ram's superannuation interest in the retirement phase (\$400,000) by \$200,000.*

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39N. *The transfer balance credit that arises in Ram and Madhu's transfer balance accounts are calculated as follows:*

Ram's transfer balance credit:

$$\frac{(\$400,000 - \$200,000)}{((\$400,000 - \$200,000) + \$600,000)} \times \$10,000 = \$2,500$$

Madhu's transfer balance credit:

$$\frac{\$600,000}{((\$400,000 - \$200,000) + \$600,000)} \times \$10,000 = \$7,500$$

39O. *The apportionment of the credit has been made in a fair and reasonable manner in accordance with the proportion of retirement phase interests Ram and Madhu hold in the SMSF.*

Debits that arise in your transfer balance account

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

- a commutation of a superannuation income stream in the retirement phase²⁹
- structured settlement contributions³⁰
- an event that results in your superannuation interest being reduced (fraud or dishonesty, bankruptcy)³¹
- a payment split (divorce or relationship breakdown)³²
- [Omitted.]
- a superannuation income stream provider failing to comply with a commutation authority in respect of a particular superannuation income stream of which you were a retirement phase recipient³⁴
- a superannuation income stream of which you were a retirement phase recipient stops being a superannuation income stream that is in the retirement phase at a time, but items 1 and 5 of the table in subsection 294-80(1) do not apply^{34A} (for example, where the superannuation income stream ceases due to a successor fund transfer occurring or fails to comply with the pension or annuity standard under which it is provided)
- a notice being issued under section 136-70 of Schedule 1 to the *Taxation Administration Act 1953* (TAA) in relation to a non-commutable excess transfer balance³⁵

²⁹ Item 1 in the table in subsection 294-80(1).

³⁰ Item 2 in the table in subsection 297-80(1).

³¹ Item 3 in the table in subsection 294-80(1).

³² Item 4 in the table in subsection 294-80(1).

³³ [Omitted.]

³⁴ Item 5 in the table in subsection 294-80(1).

^{34A} Item 6 in the table in subsection 294-80(1).

³⁵ Item 7 in the table in subsection 294-80(1).

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- other circumstances as provided for by the regulations.^{35A}

40A. The regulations may provide that certain debits do not apply to a specified class of superannuation income streams.^{35B}

Commutation

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

42. Where the superannuation income stream is commuted in full, the superannuation income stream ceases. Where the superannuation income stream is partially commuted³⁷, the value of the superannuation interest supporting the superannuation income stream is reduced. The superannuation lump sum that arises from a commutation may be cashed out of the superannuation system or can be retained within the superannuation system subject to the cashing rules for superannuation death benefits.

43. When a superannuation income stream is fully or partially commuted, a debit arises³⁸ in your transfer balance account at the time you receive the superannuation lump sum, not at the time that you instruct your superannuation income stream provider to commute a superannuation income stream. For example, if you instruct your superannuation income stream provider to commute a superannuation income stream on 1 July 2017 and, due to processing times, the superannuation income stream provider commutes the superannuation income stream to a superannuation lump sum on 7 July 2017, the debit arises on 7 July 2017 and not on 1 July 2017.

Structured settlements

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

- the settlement of a personal injury claim that is based on the commission of a wrong, or a right created by statute, effected by a written settlement agreement between the parties
- settlement of a personal injury claim arising under an Australian workers compensation law, or

^{35A} Item 8 in the table in subsection 294-80(1).

^{35B} Subsection 294-80(3).

³⁶ Refer to paragraph 110 of TR 2013/5.

³⁷ Amendments were made to regulations 1.05, 1.06, 1.07A, 1.07C and 1.07D of the *Superannuation Industry (Supervision) Regulations 1994* and regulations 1.07, 1.08 and 1.08A of the *Retirement Savings Accounts Regulations 1997* by the *Treasury Laws Amendment (Fair and Sustainable Superannuation) Regulations 2017* so that partial commutations will not count towards the minimum annual payment requirement for superannuation income streams.

³⁸ Per item 1 in the table in subsection 294-80(1).

³⁹ Per item 2 in the table in subsection 294-80(1).

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- (c) the order of a court made in respect of a claim that is based on the commission of a wrong, or a right created by statute (not including a court order approving or endorsing a settlement agreement as mentioned in subparagraphs (a) and (b)).⁴⁰

45. In addition:

- (a) for contributions made on or after 10 May 2006, the contribution must be covered by section 292-95, which includes requirements for the contribution to be made by a particular time⁴¹ and for the superannuation provider to be notified⁴², or
- (b) for contributions made before 10 May 2006, the contribution would have been covered by 292-95 if it had been in force at that time disregarding paragraphs 292-95(1)(b) and (d), which are in respect of timing and notification requirements.

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

Alternative debit amount for structured settlement contributions made before 1 July 2017

46A. If a debit arises in your transfer balance account on 1 July 2017 in respect of a structured settlement contribution that meets the requirements described in paragraphs 44 and 45 of this Ruling, the amount of the debit is the greater of:

- the amount of the contribution, or
- the sum of the credits that arise in your transfer balance account in respect of superannuation income stream or streams you receive just before 1 July 2017.

Example 3 – Structured settlement

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

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

49. *Immediately before 1 July 2017 (end of 30 June 2017), the value of Alice's superannuation interest is now \$3.5 million due to investment returns and superannuation income stream payments made to her. Alice's transfer balance account commences on 1 July 2017 and a transfer balance credit of \$3.5 million arises on this day in respect of this superannuation income stream.*

50. *On 1 July 2017, a transfer balance debit of \$4 million also arises in Alice's transfer balance account in respect of the structured settlement contribution. Therefore, Alice's transfer balance is negative \$500,000 at the end of 1 July 2017. Alice is entitled to start*

⁴⁰ Paragraph 292-95(1)(a), subsection 292-95(3) and (4).

⁴¹ Paragraph 292-95(1)(b).

⁴² Paragraph 292-95(1)(d).

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another superannuation income stream with a value up to \$2.1 million without exceeding her transfer balance cap (\$1.6 million).

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

Example 3A – Alternative debit amount

51A. *Continuing with the facts in Example 3 of this Ruling, except that immediately before 1 July 2017 (end of 30 June 2017) the value of Alice's superannuation interest is \$4.5 million instead of \$3.5 million.*

51B. *Alice's transfer balance account commences on 1 July 2017 and a transfer balance credit of \$4.5 million arises on this day in respect of this superannuation income stream.*

51C. *On 1 July 2017, a transfer balance debit also arises in Alice's transfer balance account in respect of the structured settlement contribution. As the sum of the transfer balance credits (\$4.5 million) that arise in her transfer balance account on the 1 July 2017 in respect of superannuation income streams that Alice is receiving before 1 July 2017 is greater than her structured settlement contribution (\$4 million), the debit that arises on 1 July 2017 is \$4.5 million. Therefore, Alice's transfer balance account on 1 July 2017 will be nil.*

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

Assumptions for transfer balance account and transfer balance

51E. Section 294-50 provides certain assumptions that are made in determining whether you have a transfer balance account and in working out the transfer balance of your transfer balance account.

51F. In working out if you have a superannuation income stream at a particular time you have regard to the facts and circumstances that exist at that time and assume the requirements under taxation laws and the rules and standards under which the benefit is paid are met where those requirements are a condition for there to be a superannuation income stream at that time.^{42A} The assumptions apply at a time when it is not possible to determine if a requirement is met based on the facts and circumstances at that time.^{42B}

51G. In some circumstances, a failure to comply with a requirement in the taxation laws or the rules and standards under which a superannuation income stream is paid during an income year results in the superannuation income stream ceasing at the commencement of the income year. The assumptions ensure that a failure to comply with a requirement in the taxation laws or the rules and standards do not affect the existence of the transfer balance account or a debit or credit that arises in that account before the failure to comply with the requirement occurred.

^{42A} Paragraph 294-50(2)(b).

^{42B} Subparagraph 294-50(2)(b)(iii).

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51H. The assumptions^{42C} only apply for the purposes of the transfer balance account. They do not apply for other purposes such as determining when a superannuation income stream ceases for the purposes of calculating a fund's exempt current pension income.^{42D}

Superannuation income streams that fail to comply with the standards

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

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

54. Where this occurs, the superannuation income stream provider is taken not to have been paying a superannuation income stream during the income year and the income stream ceases to be a superannuation income stream.⁴³ However, the credit that arose in the individual's transfer balance account remains due to the operation of the assumptions in section 294-50. See paragraphs 51E to 51H of this Ruling for further information about the assumptions in section 294-50.

55. A debit arises in the individual's transfer balance account at the time the income stream stops being a superannuation income stream in the retirement phase.⁴⁴ The value of the debit is the value of the superannuation interest that supports the income stream just before the time the income stream stops being a superannuation income stream. No further transfer balance debit will arise if that income stream subsequently ceases (for example, by commutation), as it has already ceased to be a superannuation income stream that is in the retirement phase. If a new superannuation income stream is commenced to replace the superannuation income stream that failed to meet the standards it will give rise to a credit in the recipient's transfer balance account.

Example 3B – Failure to make minimum payment in income year

55A. *Neesh commences an account-based pension on 1 July 2017.*

55B. *The superannuation interest supporting the superannuation income stream is valued at \$1.1 million.*

55C. *Neesh commences to have a transfer balance account on 1 July 2017 and receives a credit of \$1.1 million to her transfer balance account on that day.*

55D. *The fund fails to make the minimum payment amount for the superannuation income stream for the 2017–18 income year. The consequence of this is that Neesh is taken not to have commenced a superannuation income stream on 1 July 2017. However, the assumptions ensure that Neesh continues to have a transfer balance account and the credit of \$1.1 million that arose on 1 July 2017 remains.*

55E. *For the purposes of working out Neesh's transfer balance, the application of the assumptions in section 294-50 means that the superannuation income stream stops being a superannuation income stream at the end of 30 June 2018 and a debit arises in Neesh's*

^{42C} Section 294-50.

^{42D} Paragraphs 18 to 20 of TR 2013/5.

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

⁴⁴ Item 6 in the table in subsection 294-80(1).

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transfer balance account on that date. The debit amount is the value of the superannuation interest that supported the superannuation income stream just before it ceased to be a superannuation income stream in the retirement phase.

55F. *The assumptions in section 294-50 only apply for the purposes of the transfer balance account. They do not apply for other purposes such as determining when a superannuation income stream ceases for the purposes of calculating a fund's exempt current pension income.*

Example 3C – Failure to make minimum payment before commutation

55G. *Sho commences an account-based pension on 1 July 2018. The superannuation interest supporting the income stream is valued at \$1 million.*

55H. *Sho commences to have a transfer balance account on 1 July 2018 and receives a credit of \$1 million to his transfer balance account on that day.*

55I. *Sho fully commutes his income stream on 1 March 2019, but the fund did not meet the pro-rated minimum payment requirement for the 2018–19 income year prior to commutation. The consequence of this is that Sho is taken not to have commenced a superannuation income stream on 1 July 2018. However, the assumptions set out in section 294-50 ensure that Sho continues to have a transfer balance account and the credit of \$1 million that arose on 1 July 2018.*

55J. *For the purposes of working out Sho's transfer balance, the application of the assumptions in section 294-50 means that the superannuation income stream stops being a superannuation income stream immediately before Sho commuted the superannuation income stream on 1 March 2019. A debit arises in Sho's transfer balance account on 1 March 2019. The debit amount is the value of the superannuation interest that supported the superannuation income stream just before it ceased to be a superannuation income stream in the retirement phase.^{44A}*

55K. *A separate debit does not arise for the commutation on 1 March 2019. This is because the assumptions in section 294-50 cease to apply when the commutation occurs.*

Successor fund transfers

55L. *A successor fund transfer will occur where a fund trustee chooses to transfer members to a new (successor) fund. It can occur without the members' consent but requires the member to have equivalent rights in the new superannuation interest with the successor fund as they had in the original superannuation fund.^{44B}*

55M. *Where a successor fund transfer occurs it will impact the transfer balance account for any member who was receiving a superannuation income stream from an interest in the transferring fund.*

55N. *After the transfer, the trustee of the original fund will no longer have any liability to pay superannuation income stream benefits to the transferring members, and any superannuation income streams that were being paid to transferred members will cease.^{44C} A debit will arise in the recipient's transfer balance account at the time the*

^{44A} Section 294-50.

^{44B} 'Successor fund' is defined in subsection 995-1(1). See also section 306-12 for involuntary roll-over superannuation benefits.

^{44C} See paragraphs 28A to 28C of TR 2013/5.

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income stream ceases, equal to the value of the superannuation interest that supported the income stream just before it ceased.^{44D}

55O. If the trustee of the successor fund is required to pay a superannuation income stream to a transferred member, it will be a new superannuation income stream.^{44E} Generally, a credit will arise in the recipient's transfer balance account at the time it starts, equal to the value of the superannuation income interest that supports it at that time.^{44F}

Example 3D – Successor fund transfer – cessation of a superannuation income stream

55P. *Twice Super and Mika Super funds have agreed to enter a successor fund transfer under which the benefits of members of Twice Super will be transferred to Mika Super.*

55Q. *A Deed is prepared by the parties setting out the obligations of both parties under the successor fund transfer. This includes Mika Super providing equivalent superannuation income streams (in the form of account-based pensions) to those currently payable to members of Twice Super. The Deed specifies the transfer will occur on 1 August 2023.*

55R. *On 1 August 2023:*

- *the assets supporting superannuation income streams payable to the members of Twice Super, and corresponding obligations, are transferred to Mika Super*
- *the superannuation income streams cease for income tax purposes for each of the members of Twice Super*
- *a debit arises in the transfer balance account for each member who was receiving a retirement phase superannuation income stream from Twice Super, equal to the value of the superannuation interest that supported it*
- *the transfer results in an involuntary roll-over superannuation benefit to Mika Super in respect of each member*
- *a new superannuation income stream commences from Mika Super for each member who had received a superannuation income stream from Twice Super, and*
- *if the new superannuation income stream in Mika Super is in retirement phase, a credit arises in the new member's transfer balance account, equal to the value of the superannuation income interest that supported the income stream.*

A non-commutable excess transfer balance

56. A debit will arise in your transfer balance account when the Commissioner notifies you that you have a non-commutable excess transfer balance.⁴⁵ This situation may arise if

^{44D} Item 6 in the table in subsection 294-80(1).

^{44E} See paragraph 120E of TR 2013/5.

^{44F} Item 2 in the table in subsection 294-25(1). However, for capped defined benefit income streams, the value of the credit for the new superannuation income stream is equal to the value of the debit that arose when the superannuation income stream in the original fund ceased – see subsection 294-25.03(2) of the *Income Tax Assessment (1997 Act) Regulations 2021*.

⁴⁵ Item 7 in the table in subsection 294-80(1).

you have an excess transfer balance and you have no superannuation income streams (other than capped defined benefit income streams) left. In this situation, a debit for the remaining excess transfer balance identified in the notice arises in your transfer balance account at the time the Commissioner issues the notice.

Debits that you must notify us about in the approved form

57. Your superannuation income stream provider does not typically notify us of payment splits and events that result in a reduction in the superannuation interest supporting your superannuation income stream.⁴⁶ As such you, or your spouse in respect to payment splits, will need to notify us in the approved form if a payment split or reduction in the superannuation interest supporting your superannuation income stream occurs for a debit to arise in your transfer balance account.⁴⁷

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

Payment splits: divorce or relationship breakdown

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

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

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

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

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

⁴⁷ Paragraph 294-85(1)(b).

⁴⁸ Item 1 in the table in subsection 294-80(1).

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

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

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

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

61C. The time at which these debits arise in the member spouse's and non-member spouse's transfer balance account is the later of⁵³:

- (a) the operative time for the payment split, or
- (b) at the start of the day the member spouse or non-member spouse first starts to have a transfer balance account.

62. [Omitted.]

63. The operative time for a payment split under a superannuation agreement⁵⁴ is the beginning of the fourth business day after the day on which a copy of that agreement, with the relevant accompanying documentation, is served on the trustee of the eligible superannuation plan.

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

Example 4 – Payment splits

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

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

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

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

⁵¹ Item 4 in the table in subsection 294-80(1).

⁵² Subsection 294-90(2).

⁵³ Subsection 294-90(4).

⁵⁴ Section 90MI of the *Family Law Act 1975*.

⁵⁵ Section 90MD of the *Family Law Act 1975*.

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

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

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

Figure 2: Justin's transfer balance account

Date	Description	Debit	Credit	Balance
1 July 2017	Transfer balance account commences		\$1.6 million	\$1.6 million
1 April 2018	Payment split	\$966,000		\$634,000

Figure 3: Lizzy's transfer balance account

Date	Description	Debit	Credit	Balance
1 April 2018	Transfer balance account commences	\$644,000	\$1.61 million	\$966,000

69. [Omitted.]

Excess transfer balance

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

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

72. However, the transitional provisions provide that you do not have an excess transfer balance in the transitional period from 1 July 2017 to 31 December 2017⁵⁸ if:

- the only transfer balance credits in your transfer balance account in that period arises under item 1 of the table in subsection 294-25(1) (where a transfer balance credit arises where you are a retirement phase recipient of a superannuation stream just before 1 July 2017)

⁵⁶ Modified rules apply in determining excess transfer balance for individuals who are receiving capped defined benefit income streams and child recipients of death benefit income streams. Refer to LCR 2016/10 and LCR 2017/1 for further guidance on these rules.

⁵⁷ Subsection 294-30(2).

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

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- your transfer balance is in excess of your transfer balance cap (the relevant transfer balance cap for the transitional period was \$1.6 million) by an amount equal to or less than \$100,000, and
- your transfer balance is reduced to or below your transfer balance cap within the transitional period.⁵⁹

73. [Omitted.]

74. The transitional provisions operate only to disregard your excess transfer balance for this 6-month period so that you do not have any excess transfer balance earnings and you are not liable for excess transfer balance tax.

75. [Omitted.]

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

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

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

Excess transfer balance tax

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

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

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

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

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

⁶⁰ Paragraph 294-40(1)(b).

⁶¹ Subsection 294-230(2).

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

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

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

Excess transfer balance determinations

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

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

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

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

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

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

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

90. [Omitted.]

91. Excess transfer balance earnings⁶³ continue to be calculated irrespective of the determination until your transfer balance is at or below your transfer balance cap. Excess transfer balance tax is imposed on the excess transfer balance earnings that accrue from

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

⁶³ Subsection 294-235(1).

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the date you first start to have excess transfer balance until you no longer have excess transfer balance.

Default commutation notice

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

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

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

94. To meet this requirement, the Commissioner will generally specify the superannuation income stream which caused the excess transfer balance. An example of when the Commissioner will specify a different superannuation income stream is if the superannuation income stream that caused the excess transfer balance is a capped defined benefit income stream.⁶⁵ The Commissioner is also unlikely to specify a superannuation income stream if the Commissioner is aware that the value of the superannuation interest⁶⁶ supporting that superannuation income stream is likely to be less than the crystallised reduction amount (unless this is your only superannuation income stream).

95. You may object to a determination under Part IVC of the TAA as a determination is a taxation decision for Part IVC purposes. However, the default commutation notice that accompanies the determination is not part of the taxation decision, and does not carry any objection rights. However, if you wish for a different superannuation income stream to be commuted than that which is specified in a default commutation notice you may do so by directly asking the superannuation income stream provider to commute your chosen superannuation income stream or by making a valid election (explained in paragraphs 96 to 102 of this Ruling).

Valid election

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

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

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

⁶⁵ As defined in section 294-130.

⁶⁶ Based on information available to the Commissioner.

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98. In granting a further period for making an election, the Commissioner will take into account your circumstances and the requested extension period. An example of when the Commissioner may grant an extension is if you requested a 3-week extension because you were sick or were waiting on information from your superannuation provider.

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

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

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

101. [Omitted.]

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

No valid election

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

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

Commutation authorities

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

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

⁶⁷ Subsection 136-55(3) of Schedule 1 to the TAA.

⁶⁸ Subsection 136-55(4) of Schedule 1 to the TAA.

⁶⁹ Paragraph 136-20(1)(b) of Schedule 1 to the TAA.

⁷⁰ Subsection 136-55(1) of Schedule 1 to the TAA.

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

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

Commissioner of Taxation

10 March 2017

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References

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LCG 2016/D9; LCR 2016/6DC

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TR 2013/5; LCR 2016/10; LCR 2017/1

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