


TD 94/D75 - Income tax: will the new definition of the term 'undeducted purchase price' include any other component besides undeducted contributions, where the relevant pension or annuity has been purchased on or after 1 July 1994 using the residual capital value of an earlier pension or annuity?

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Draft Taxation Determination

Income tax: will the new definition of the term 'undeducted purchase price' include any other component besides undeducted contributions, where the relevant pension or annuity has been purchased on or after 1 July 1994 using the residual capital value of an earlier pension or annuity?

1. No. The definition of the term 'undeducted purchase price' (UPP) contained in subsection 27A(1) of *The Income Tax Assessment Act 1936* has been amended, with effect from 1 July 1994.
2. The new definition applies to pensions and annuities for which the first day of the period to which the first payment relates is on or after 1 July 1994. Under the new definition, the UPP for a pension or annuity will be calculated having regard only to the taxpayer's undeducted contributions.
3. Whilst the amounts included in the UPP have been restricted, it should be noted that if the pension or annuity qualifies as a rebatable ETP annuity or rebatable superannuation pension, as defined in subsection 159SJ(1), then the taxpayer will be entitled to a rebate under section 159SM.
4. The former definition of UPP will continue to apply to superannuation pensions and annuities paid in respect of a period that commenced before 1 July 1994 and to superannuation pensions and annuities that do not qualify for the new rebate under section 159SM.

Example

Brenton retired on 1 July 1989. He is over 55 years of age and received an Eligible Termination Payment comprising the following amounts:

<i>Undeducted contributions</i>	<i>10,000</i>
<i>Pre July 83 component</i>	<i>30,000</i>
<i>Post June 83 component</i>	<i>20,000</i>

He used the entire proceeds to purchase an annuity:

<i>Purchase price</i>	60,000
<i>Undeducted purchase price (see definition of UPP in section 27A(1))</i>	40,000
<i>Residual value (under terms of annuity)</i>	60,000

This annuity terminates on 1 July 1994, and Brenton decides to roll over the entire residual value into a new rebatable annuity.

His undeducted purchase price is \$10,000.

Commissioner of Taxation

07/07/94

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Related Determinations:

Related Rulings:

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