Australian Government
Australian Taxation Office

Guidance note for super

GN 2017/13

Page status: **Guidance – Not legally binding**

New transfer balance cap – child death benefit recipients

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This Guidance note contains general information and examples. It may omit details that could be significant in your personal circumstances

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This information is for people who:

- are or will be a child recipient of a death benefit income stream
- are assisting/advising child recipients of a death benefit income stream.

Transfer balance cap and child recipients

Child recipients of a death benefit income stream from a deceased parent may have a modified transfer balance cap, rather than the general transfer balance cap ($1.6 million in 2017–18).

The normal transfer balance rules apply, but the modified transfer balance cap depends on the deceased parent's super interests.

The modified cap is the total amount of the 'cap increments' a child recipient is entitled to. Child recipients will be entitled to retain super income stream(s) up to the amount of the cap increment(s) without exceeding their transfer balance cap.

For further information on the normal rules for death benefit income streams and the transfer balance cap, refer to GN 2017/7 *New transfer balance cap – death benefit income streams*.

Who is a child recipient?

An individual is a 'child recipient of a death benefit income stream' if they are receiving a death benefit income stream and:

- you are under 18 years old; or
- you are between 18 and 25 and were financially dependent on the deceased; or
- you have a permanent disability.

When the transfer balance account ceases

Unless the child recipient has a permanent disability, upon turning 25 years old they are required to cash out all death benefit income streams and withdraw the capital from the super system. At this time, their transfer balance account and modified transfer balance cap will cease (unless the capital has already been exhausted).

Child recipients with a permanent disability will not be subject to the cashing out rule. The modified transfer balance cap will cease when all of the funds that support their death benefit income stream have been exhausted. An exception is if they also have other super income streams, such as a disability pension or an income stream funded by a structured settlement contribution.

If the child recipient subsequently starts receiving a super income stream (other than as a child recipient), they will start a new transfer balance account. The new transfer balance cap is based on the general transfer balance cap at that time.

Recipient of another super income stream

If the child recipient also receives their own super income stream or another death benefit income stream (for example, from an interdependency relationship), the modified transfer balance cap is worked out differently. In this case, the cap is the sum of:

- the recipient's personal transfer balance cap, worked out according to the general rules
- the total amount of cap increments received as a child recipient.

To ensure death benefit income streams and related transfer balance cap increments do not affect the indexation of the recipient's personal transfer balance cap, these amounts are disregarded in the transfer balance cap calculation. This modification only applies when calculating the recipient's transfer balance cap, including access to proportional indexation of the cap.

For child recipients receiving their own super income stream, their transfer balance account will not cease when the child recipient death benefit income stream has been cashed out or exhausted.

How do the cap increments work?

Child recipients who are only receiving death benefit income streams do not have a personal transfer balance cap equal to the general transfer balance cap. Instead, their ‘modified transfer balance cap’ generally takes into account the value of the deceased parent’s retirement phase interests they receive. This is achieved through a series of transfer balance cap increments that accrue to the child recipient.

The cap increments that apply depend on when the child recipient starts receiving the death benefit income stream:

- before 1 July 2017;
- on or after 1 July 2017.

Started receiving income stream before 1 July 2017

The cap increment for child recipients receiving death benefit income streams before 1 July 2017 is equal to the general transfer balance cap of $1.6 million.

The cap increment arises on 1 July 2017 and means the child recipient can be in receipt of death benefit income streams of up to $1.6 million without exceeding their modified transfer balance cap.

Start receiving income stream on or after 1 July 2017

For child recipients who start to receive a death benefit income stream after 1 July 2017, the cap increment that applies depends on the following circumstances:

- whether the deceased parent had a transfer balance account before the time of their death
- if the deceased parent had a transfer balance account, the source of their super interest that the child recipient's income stream comes from
- whether the deceased parent had a transfer balance account and also had an excess transfer balance in the retirement phase just before the time of their death.

A cap increment arises for each death benefit income stream received from a parent. If the child recipient starts to receive death benefit income streams because both of their parents died, the modified transfer balance cap is the total of the cap increments worked out for each parent.

Each cap increment arises when the child recipient starts to be entitled to the death benefit income stream. However, in the case of a reversionary death benefit income stream, the cap increment is deferred for 12 months to align with the modifications for this type of death benefit income stream (see GN 2017/7 – *New transfer balance cap – death benefit income streams*).

Deceased parent had no transfer balance account

If the parent did not have a transfer balance account at the time of their death (for example, they died before they were in retirement phase), the child recipient will receive the death benefit income stream from the parent's accumulation phase interest.

In this case, if the child recipient is the sole beneficiary of the super interest, their cap increment is equal to the general transfer balance cap ($1.6 million in 2017–18). If the child recipient is not the sole beneficiary of the super interest, their cap increment is a proportion of the general transfer balance cap, reflecting their share of the parent's super interests.

Deceased parent had a transfer balance account

If the deceased parent had a transfer balance account before they died, the child recipient's cap increment depends on the type of super interest their death benefit income stream comes from. This is because only death benefit income streams that come from a retirement phase interest of a deceased parent are entitled to a cap increment.

Generally, an amount is considered to be sourced from the deceased parent's retirement phase interest if the amount came from super interests supporting income streams payable to them just before their death. This amount includes earnings accrued on those income streams after the parent's death, up until a death benefit income stream is paid.

If the deceased parent only had a retirement phase interest, the child recipient's cap increment is equal to the share of the deceased parent's interest they are receiving as a death benefit income stream. However, if the deceased parent had a transfer balance account, but the child recipient's death benefit income stream comes from the parent's accumulation interest, the cap increment is nil.

If the child recipient's death benefit income stream is partially funded by a retirement phase interest and partially from an accumulation interest, the cap increment is equal to their share of the retirement phase interest. The benefit received from the deceased parent's accumulation interest has a cap increment of nil. This means the child recipient will have an excess transfer balance (unless they also have a cap increment because of the death of another parent or they also have a personal transfer balance cap because they have another non-death benefit income stream).

Deceased parent had an excess transfer balance

The child recipient's cap increment is reduced if the deceased parent had a transfer balance account that exceeded their cap just before they died. In this situation, the child recipient's cap increment is reduced by their share of the parent's excess amount.

What you need to do

What you need to do before 1 July 2017

Situation	Action
If the child recipient is already (prior to 1 July 2017) receiving one or more death benefit income streams from a deceased parent(s)	Check with the child recipient's super fund(s) whether the total value of their death benefit income streams, is likely to be more than their modified transfer balance cap on 1 July 2017. You may need to provide information to the fund about the deceased parent. The child recipient's modified transfer balance cap is equal to their cap increment ($1.6 million) for their death benefit income streams. If the child recipient is likely to exceed their modified cap,

	they can reduce any excess by removing (commuting) it from the death benefit income stream as a lump sum.
If the child recipient is already (prior to 1 July 2017) receiving one or more death benefit income streams from a deceased parent(s) and also receiving other types of super income streams	Check with the child recipient's super fund(s) whether the total value of their retirement phase interest(s), including any death benefit income streams, is likely to be more than their modified transfer balance cap on 1 July 2017. You may need to provide information to the fund about the deceased parent. The child recipient's modified transfer balance cap is the total of their: ▪ cap increment for their death benefit income stream(s), and ▪ personal transfer balance cap, worked out according to the general rules. If the child recipient is likely to exceed their modified cap, they can reduce any excess by removing (commuting) it, from the death benefit income stream as a lump sum. Alternatively, if the child recipient has other account-based income streams, they can commute the excess from those income streams by: ▪ transferring it back into accumulation phase ▪ withdrawing it from the super system, or ▪ making additional pension payments prior to 1 July 2017.

What you need to do after 1 July 2017

Situation	Action
If the child recipient becomes entitled to one or more death benefit income streams from a deceased parent (or deceased parents) from 1 July 2017	Check with the child recipient's super fund(s) to ensure the total value of their retirement phase interest(s), including their death benefit income streams: ▪ is under their modified transfer balance cap, and ▪ will not subsequently exceed it (by transferring more into retirement phase). If the total value of the child recipient's retirement phase interests is over their modified transfer balance cap and they only have death benefit income streams, they can reduce the excess by removing (commuting) it, from a death benefit income stream as a lump sum. Any commuted amount will need to be cashed out as a lump sum and paid to the child recipient rather than being kept in an accumulation account. Alternatively, if the child recipient has other account-based income streams, they can commute the excess from those income streams, by: ▪ transferring it back into accumulation phase, or ▪ withdrawing it from the super system.

Examples

Main points	Example
■ *Raaf is a child recipient of a death benefit income stream* ■ *His father had accumulation phase interests only*	*Raaf is 16 years old when his father dies in 2018. His father had not retired and had an accumulation account of $2 million at the time of his death.* *Raaf's father did not have a transfer balance account. Raaf is the only beneficiary of his father's super interest.* *Raaf will be entitled to a transfer balance cap increment equal to the general transfer balance cap ($1.6 million), as there are no other beneficiaries. He can receive $1.6 million of the $2 million as a death benefit income stream without exceeding his modified transfer balance cap. The remaining $400,000 would need to be paid to him as a death benefit lump sum and removed from the super system.* *Raaf starts a $1.6 million death benefit income stream and a credit arises in his transfer balance account for the same amount at that time.* *Raaf will have to cash any remaining balance of the death benefit income stream out of the super system when he turns 25. His transfer balance account will cease at that time and he will be entitled to a new transfer balance account and transfer balance cap when he commences his own super income stream in the future.*
■ *Child recipients of death benefit income streams* ■ *Sisters who are equal beneficiaries of their mother and father's super interests* ■ *Their mother had a retirement phase interest only* ■ *Their father had an accumulation phase interest only*	*Jemima was 16 years old and her sister Willow was 17 years old when their mother died in January 2018. They are equal beneficiaries of their mother's super interest. Their mother had a retirement phase interest of $1.4 million just before she died.* *In March 2018, the trustee of their mother's super fund decides to pay each child a non-reversionary death benefit income stream of $700,000. Both Jemima and Willow are entitled to a transfer balance cap increment equal to their share of their deceased mother's retirement phase interest ($700,000 (50% of $1.4 million)).* *In March 2018, a credit of $700,000 arises in each of the sisters' transfer balance accounts. They each receive a transfer balance cap increment of $700,000; therefore neither has an excess transfer balance.* *Shortly after their mother's death, their father also dies. Their father had not retired and he had accumulation accounts of $2 million, of which the sisters were equal beneficiaries.* *As their father did not have a transfer balance account before his death, his beneficiaries are entitled to their share of the general transfer balance cap (corresponding with their share of his super interest). The sisters will each receive a transfer balance cap increment of $800,000 (50% of the general transfer balance cap). Each sister will now have a modified transfer balance cap of $1.5 million ($700,000 plus $800,000).* *Each sister starts a new death benefit income stream*

	(worth $800,000) from their father's accumulation interest. The remaining $400,000 accumulation interest must be cashed out of the super system and provided equally to each of the sisters as death benefit lump sums.
- *Raj is the sole beneficiary of his father's super interest.* - *His father had $600,000 in an accumulation interest and $1.2 million in retirement phase when he died.*	*Raj, 17 years old, is the only beneficiary of his father's super interest. His father (Rajesh) had $600,000 in an accumulation interest and $1.2 million in retirement phase when he died in late 2017. Between the time of Rajesh's death and the time Raj started receiving a death benefit income stream, earnings of $4,000 accrued to Rajesh's retirement phase interest.* *Raj's death benefit will be sourced from an accumulation phase interest and a retirement phase interest. Therefore, he is only entitled to a cap increment from the retirement phase interest if he were to commence a death benefit income stream.* *If Raj starts a death benefit income stream of $1,204,000, he would be entitled to a $1,204,000 cap increment. The $600,000 accumulation interest has a cap increment of nil if he chooses to commence a death benefit income stream from this interest.* *Raj will have an excess transfer balance for the $600,000 if he takes this amount as a death benefit income stream. Raj, therefore, elects to start a death benefit income stream for $1,204,000 and have the $600,000 paid to him as a death benefit lump sum.*
- *Lyra dies with a reversionary income stream valued at $1.9 million* - *Her daughter Ivy, is 21 years old and financially dependent on her* - *Ivy is the sole beneficiary*	*Lyra dies in August 2017, shortly after commencing an income stream valued at $1.9 million. Her daughter, Ivy, is 21 years old and financially dependent on her. On Lyra's death, her income stream reverts to Ivy.* *As the transfer balance cap is $1.6 million, Lyra has an excess transfer balance of $300,000 just before she dies, which will affect Ivy's cap increment.* *Ivy's cap increment is reduced by the amount of the excess ($1.9 million minus $300,000) leaving Ivy with a cap increment of $1.6 million.* *In August 2018, a credit for $1.9 million will arise in Ivy's transfer balance account. The credit occurs 12 months after the income stream reverts to Ivy. A transfer balance cap increment of $1.6 million (the value of the $1.9 million income stream less Lyra's $300,000 excess transfer balance) will also arise at the same time.* *Before August 2018 – to avoid having an excess transfer balance – Ivy partially commutes the reversionary income stream and cashes $300,000 out of the super system as a death benefit lump sum.*
- *Barbara, who is 19, received structured settlement* - *Barbara is sole beneficiary of her father's super interest*	*On 1 September 2017, Barbara contributes $5 million she received from a structured settlement into her super and starts a super income stream worth $5 million.* *On 1 September 2017, Barbara starts to have a transfer balance account and transfer balance cap. Her transfer balance cap is $1.6 million. Her transfer balance account is debited by $5 million for the new super income stream and*

	is credited by $5 million for the structured settlement contribution. At the end of 1 September 2017, her transfer balance is nil and she has $1.6 million of available cap space. *On 1 January 2018, Barbara's father, Jim, dies. Jim had a $1.6 million non-reversionary income stream. Barbara, Jim's sole beneficiary, was paid a new $1.6 million death benefit income stream from Jim's retirement phase interest.* *On 1 January 2018, Barbara's transfer balance cap is increased to $3.2 million (her $1.6 million transfer balance cap plus the $1.6 million cap increment from her new death benefit income stream). A credit of $1.6 million arises in her transfer balance account on the same day. Barbara's transfer balance is now $1.6 million, while her available cap space is still $1.6 million.* *For the purposes of proportional indexation, Barbara's highest transfer balance is nil (her credit of $1.6 million for the death benefit income stream is disregarded). Assuming no further changes, she will be entitled to 100% of any future indexation of the general transfer balance cap.*

References

ATOlaw topic(s)	Superannuation ~~ Income tax - individuals (superannuation) ~~ Other
Legislative references	
Related Rulings/Determinations	▪ LCR 2016/9 *Superannuation reform: transfer balance cap* ▪ LCR 2016/10 *Superannuation reform: capped defined benefit income streams – non-commutable, lifetime pensions and lifetime annuities* ▪ LCR 2017/1 *Superannuation reform: defined benefit income streams – pensions or annuities paid from non-commutable, life expectancy or market-linked products* ▪ LCR 2017/3 *Superannuation reform: superannuation death benefits and the transfer balance cap* ▪ PCG 2017/6 *Superannuation reform: commutation of a death benefit income stream before 1 July 2017*
Case references	
Other references	▪ GN 2017/1 *New transfer balance cap for retirement phase accounts* ▪ GN 2017/4 *New transfer balance cap – defined benefits*
ATO references	
BSL	SPR