SUPERCENTRAL

Transfer Balance Cap – increase to $1.9m

16 March 2023

- **Should a new pension be commenced before or after 1 July 2023?**
- **Would there still be an advantage in commencing a new pension only after 1 July 2023 if the pension balance is less than $1.9m?**
- **Can someone gain the benefit of the new general transfer balance by commuting his pension and returning to accumulation phase?**
- **What about someone who has a transition to retirement pension?**

This cap, which is currently $1.7m, will be increased to $1.9m with effect on 1 July 2023. The increase of $200,000 in the gap is due to indexation.

This cap is the maximum amount of your superannuation which can be transferred from accumulation phase to retirement phase. The reason to transfer super from accumulation phase to retirement phase is to obtain the earnings tax exemption. In accumulation phase investment income (income and realised capital gains) is taxed at 15% (with a 1/3rd discount on long term capital gains which effectively means realised capital gains are taxed at 10%). In contrast, in retirement phase investment earnings are tax free.

As the transfer balance cap is a cap on the amount of super which can transfer from accumulation phase to retirement phase, it has no application to the amount of super you have in retirement phase. This can be illustrated by an example where, say, Engelbert H commenced an account-based pension with an initial pension balance of $1.6m on 1 July 2020 (when the transfer balance cap was $1.6m). As at 30 June 2022, Engelbert's pension balance has grown to $1.8m as he has experienced reasonable growth which has materially exceeded the pension payments made from the account since its commencement. Having $1.8m in pension phase does not breach the transfer balance cap as the cap applies to the initial pension account balance and subsequent increases in the pension balance due to earnings are not relevant.

The transfer balance cap is a lifetime cap and applies to all of your retirement phase pensions irrespective of the superannuation fund from which the pension has been issued.

Should a new pension be commenced before or after 1 July 2023?

Well, consider Engelbert. He has not previously commenced a retirement phase pension and his current superannuation balance is $2.1m. If he commenced a pension before 1 July 2023, at most the pension could be commenced with $1.7m (the value of the Transfer Balance Cap for 2022/23 financial year.

If Engelbert commenced an account-based pension on or after1 July 2023 – he would be entitled to a transfer balance cap of $1.9m rather than $1.7m. So there would be a material benefit to Engelbert in delaying the commencement of his pension until after 30 June 2023.

Would there still be an advantage in commencing a new pension only after 1 July 2023 if the pension balance is less than $1.9m?

Yes, there would still be an advantage. Yet again, consider Engelbert. He has a super balance of $1.2m with which to commence an account-based pension which will be in retirement phase. As this is Engelbert's first retirement phase pension, the commencement of the pension will cause a transfer balance account to be established for him by the ATO. If the pension commenced before 1 July 2023, then Engelbert's transfer balance cap will be $1.7m (which is the value of the transfer balance cap applying at the commencement of the pension). However, if the pension commencement on or after 1 July 2023, his transfer balance cap would, instead, be $1.9m.

Having a personal transfer balance cap of $1.7m against $1.9m has two implications. The first is that the unused transfer balance cap space will be different. Second the is the degree to which the personal transfer balance cap will be increased due to subsequent indexation of the general transfer balance cap.

As to the first implication, Engelbert by commencing the retirement phase pension will have a personal transfer balance cap of either $1.7m or $1.9m which means that he will have the ability to move from accumulation phase to pension phase of $500,000 (if the $1.7 cap applies) or $700,000 (if the $1.9m cap applies).

The second implication arises in respect of the extent to which Engelbert will benefit from any future increases in the transfer balance cap. If the pension commences before 1 July 2023, Engelbert will have exhausted about 70% of his personal transfer balance. By way of contrast, if he commenced his pension on or after 1 July 2023, he will have only exhausted about 63% of this personal balance. Consequently, if the general transfer balance is increased by another $200,000, Engelbert will have his personal transfer balance increased by $60,000 or $74,000 (the former figure applies if the pension commenced before 1 July 2023 and the latter figure applies if the pension commenced on or after 1 July 2023).

The detailed explanation of the different dollar increase amounts is that if the pension commences before 1 July 2023, Engelbert will have an unexhausted portion of 30% of his personal transfer balance and if the pension is commenced on or after 1 July 2023 the unexhausted portion of his personal transfer balance will be 37%. Consequently any subsequent increase in the general transfer balance will increase his personal transfer balance by 30% or 37% depending on the commencement date of his pension. This example assumes that Engelbert did not commence another retirement pension before the increase in the general transfer balance cap.

Can Engelbert gain the benefit of the new general transfer balance by commuting his pension and returning to accumulation phase?

Unfortunately, no. While he could move his pension back to accumulation phase (by a full commutation of the pension), and then commence a new retirement phase pension, his personal transfer balance will remain $1.7m assuming the first pension commenced on or before 30 June 2023.

Once Engelbert commenced his first retirement phase pension, the general transfer balance applying at the commencement date will become his personal transfer balance and this balance will remain unchanged except for any proportional increase due to indexation of the general transfer balance. So, even if Engelbert moves his entire pension capital back to accumulation phase, this movement will have no impact on and will not affect his personal transfer balance cap.

What about Gunhild, who has a transition to retirement pension?

A transition to retirement pension is not a retirement phase pension. Consequently, when Gunhild commenced a transition to retirement pension a transfer balance account was not created by the ATO. If and when Gunhild first satisfies an unrestricted release condition, typically those conditions are attaining age 65 or becomes retired for superannuation purposes the transition to retirement pension will then move into retirement phase and a transfer balance account will then be established for Gunhild. The initial credit to the transfer balance account will be the value of the transition to retirement pension at the time the first satisfaction of the unrestricted release condition.

If Gunhild is likely to satisfy an unrestricted release condition before on or before 30 June 2023, then it will advantageous for Gunhild to commute the transition to retirement pension before she satisfies an unrestricted release condition and then commencing an account-based pension on or after 1 July 2023. Without commuting the transition to retirement pension, when Gunhild first satisfies an unrestricted release condition (say, attaining age 65) on or before 30 June 2023 – she will have a personal transfer balance cap of $1.7m. By commuting the transition to retirement pension and commencing a transition to retirement pension on or after 1 July 2023, she will have a transfer balance cap of $1.9m.

For more information on any aspect covered in this article, please call SUPERCentral on 02 8296 6266 or email info@supercentral.com.au.