Tim Miller, SuperGuardian

Tim Miller, education manager at SuperGuardian, is one of Australia's leading SMSF educators and presenters with over 24 years' experience in the superannuation industry gained by providing legislative and compliance support to thousands of SMSF trustees and professionals. Tim, an SMSF Association specialist adviser, regularly presents at SMSF events, contributes to trade and general publications, and has authored and/or reviewed many courses presented by highly regarded SMSF education providers.

Indexing the personal transfer balance cap

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The general transfer balance cap (GTBC) was introduced from 1 July 2017 and is a cap on the how much can be transferred to a retirement-phase pension for a member. The cap ultimately restricts the entitlement an individual has to receive a tax exemption on their retirement phase earnings. On face value the GTBC concept is relatively straightforward.

Each individual will have their own personal transfer balance cap (PTBC) which will initially align with the GTBC in the year they commence a retirement-phase pension. Based on how much an individual commences a pension for will determine how their PTBC is indexed.

With an initial GTBC of $1.6 million, individuals who commence a retirement-phase pension prior to the first indexation date will have an initial PTBC of $1.6 million, but what happens when the GTBC is indexed commencing from 1 July 2021?

What is the difference between the GTBC and the PTBC?

Unlike the GTBC, once indexation occurs, there is no single PTBC that applies to everyone, as each member can potentially have their own PTBC depending on their situation.

As noted above, the reason they can differ is an individual's PTBC will depend on when they first started their retirement-phase income stream. The PTBC is first determined as being equal to the GTBC in the year that a member first starts to have a transfer balance account (TBA) and receives a retirement phase pension. For reversionary pensions, where the reversionary beneficiary has not already commenced a retirement phase pension, the PTBC will be based on the GTBC as at 1 July of the year in which the pension entitlement arises despite it not counting towards the TBA until 12 months from the date of death, more on this below.

How will indexation affect the individual's PTBC?

The amount of indexation available to an individual is calculated proportionately based on their available cap space. When the cap is met or exceeded, there is no entitlement to indexation. If the cap has not yet been met, proportionate indexation is available, and this is where it becomes more complex. Once the GTBC becomes $1.7 million, from 1 July 2021, an individual can have a PTBC anywhere between $1.6 million and $1.7 million.

To reiterate, if a member commences a retirement-phase income stream for the first time after 1 July 2021, their PTBC will be $1.7 million.

However, if a retirement phase income stream is commenced before indexation occurs the PTBC will be:

- $1.6 million if at any time between 1 July 2017 and 30 June 2021, the balance of the TBA was $1.6 million or more
- between $1.6 million and $1.7 million for all other cases, based on the highest balance in the TBA.

Therefore, if an individual's TBA was $1.6 million or more between 1 July 2017 and 30 June 2021, they will have a PTBC of $1.6 million regardless of whether they subsequently reduced their TBA balance before indexation via a commutation.

When the full cap has not been utilised, the TBA is used to calculate the proportional increase in the PTBC applicable for the individual. The Australian Taxation Office's online services for individuals, will show a member's TBA balances and whether their PTBC is proportionately indexed.

Note: If a reversionary pensioner commences a pension during the 2020/21 financial year but has no other retirement-phase pensions, their highest TBA value will be nil ($0) as at 30 June 2021. As a result, they will be entitled to full indexation of $100,000 resulting in their PTBC being indexed to $1.7 million.

How to calculate the proportionate increase in the PTBC?

The proportionally indexed transfer balance cap is calculated by the following process in section 294-40 of the *Income Tax Assessment Act 1997*:

- Determining the highest ever balance in the TBA
- Using the highest ever balance to calculate the proportion of the cap used, as a percentage, (rounded down to the nearest whole number) and then subtracting from 1 to determine the 'unused cap percentage' of the TBA
- Multiplying the unused cap percentage by the indexation increase of $100,000
- Adding the dollar figure to the original PTBC to represent the new PTBC.

In very simple terms, if someone starts a pension in 2020/21 with $800,000 then they have a personal cap of $1.6 million with an unused proportion of 50%. This means that when the GTBC is indexed by $100,000 they get an extra $50,000 added to their personal transfer balance cap. Table 1 provides some example calculations:

Table 1. Calculation of proportionate increase in the PTBC

Highest TBA balance	Unused cap percentage (rounded)	Indexation to PTBC
$1,600,000	0%	$0
$1,500,000	7%	$7,000
$1,200,000	25%	$25,000
$1,000,000	38%	$38,000
$800,000	50%	$50,000
$500,000	69%	$69,000

As shown in Table 1, there is very little purpose in trying to manipulate the caps by short-changing the pension commencement by a few dollars as it will not amount to any significant value when indexation occurs.

Example 1

An individual commences their first retirement-phase pension on 1st February 2020 for $1.1 million. This represents the highest ever balance of the TBA as no further transactions have occurred.

- The unused cap percentage is ($1.6 million – $1.1 million) / $1.6 million = 31% (rounded down)
- The PTBC will be indexed by 31% x $100,000 = $31,000
- PTBC after indexation = $1.6 million + $31,000 = $1,631,000

It is also important to note that in the above example if there had been a commutation from the pension, it would have been ignored and the highest ever balance of the TBA would still be used to calculate the proportionate indexation increase to the PTBC.

The next example further reiterates the importance of the 'highest ever TBA balance'.

Example 2

An individual commences their first retirement-phase pension on 1 July 2019 for $1.6 million. They then take a partial commutation of $800,000 on 1 July 2020 leaving the current TBA balance at $800,000 as shown in Table 2.

Table 2. Transactions occurring in the transfer balance account

Event	Credit	Debit	Balance
1/7/2019 pension commencement	$1,600,000		$1,600,000
1/7/2020 pension commutation		$800,000	$800,000

What happens when indexation comes in on 1 July 2021?

- GTBC is indexed by $100,000 to bring the GTBC cap to $1.7 million
- PTBC indexation is nil
- PTBC stays at $1.6 million
- Available cap space is $800,000

In this example, there is no indexation available to the individual's PTBC as they have already commenced a pension using 100% of their cap at that time. While they have no future entitlement to indexation, they are entitled to commence a further pension to bring their TBA up to their cap, but it will not be indexed.

Further implications of GTBC indexation

The increase to the GTBC and consequently to individual PTBCs will also have a potentially significant impact on the following events as they are all tied to the value of the GTBC:

- Making non-concessional contributions
- Ability to use the bring forward provisions for non-

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concessional contributions
- Eligibility for the co-contribution
- Eligibility for the tax offset for spouse contributions
- The defined-benefit income cap (indexed to $106,250 from 1 July 2021).

Concessional and non-concessional contribution caps are also subject to indexation, although they are indexed based on Average Weekly Ordinary Time Earnings figures and not CPI. Indexation of the caps will have relevance to the annual bring-forward amount and so ultimately impacting how much total superannuation balance an individual can have to use these provisions.

The catch to the PTBC will be to ensure accurate records are available with regard to pension commencements so the highest TBA balance can be determined, and indexation applied appropriately. **FS**

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