The $1.6 million transfer balance cap – what does it mean for you?

The changes to superannuation announced in the 2016 Federal Budget have been passed by Parliament. Amongst those changes was the introduction of a $1.6 million transfer balance cap which limits the tax exemption for assets funding superannuation pensions.

This new limit on superannuation will apply from 1 July 2017 and creates additional responsibilities for SMSF trustees. The main issues you need to be aware of are:

- All super fund members who are receiving a pension on 1 July 2017 will have a transfer balance cap of $1.6 million created at that time.
- Those not receiving a superannuation pension on 1 July 2017, but will in the near future, their transfer balance cap will be created when they first receive a superannuation pension.
- The amount of tax-exempt assets available to fund a super pension under the cap is determined by a system of debits and credits which are recorded in a *transfer balance account*.
- Credits are created by:
    - The value of super assets supporting income streams on 30 June 2017,
    - Starting new superannuation income streams from 1 July 2017 onwards,
    - The value of reversionary income streams where an individual becomes entitled to them, and
    - Notional earnings accruing to excess transfer balance amounts.
- Debits are created by:
    - Commutations of superannuation pensions,
    - Structured settle payments contributed to superannuation, and
    - Certain payments arising from family law splits, fraudulent or void transactions.
- Reversionary pensions will count towards the cap, but members will have a 12 month period from the date of death to deal with the reversionary pension before a credit arises and counts towards their cap.

Going over the $1.6 million transfer balance cap will require the excess amounts to be removed from the retirement phase which will likely require the commutation of the relevant pension which has exceeded the cap.

Defined benefit pensions and certain pre-2007 superannuation pensions have special rules for the transfer balance cap recognising their non-commutable nature.

Any amounts in excess of a member's personal transfer balance cap can continue to be maintained in their accumulation account in their fund. This means if you have more than $1.6 million in super you can maintain up to $1.6 million in pension phase and retain any additional balance in accumulation phase.

Approaching 1 July 2017 people may wish to structure their asset holdings to be in a position to optimise the $1.6 million transfer balance cap, especially between spouses.

It is also important to know that there is transitional capital gains tax relief for superannuation assets that are affected by any changes you might need to make by 1 July 2017 to comply with the new rules. This capital gains relief will ensure that any capital gain accumulated on affected superannuation assets will be deferred to a later time when the asset is sold.

How can we help?

If you are concerned that the Government's changes to the transfer balance cap will affect you from 1 July 2017, please feel free to give me a call to arrange a time to meet so that we can discuss your particular requirements in more detail.