The Transfer Balance Cap

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Personal financial advice

The introduction of the Transfer Balance Cap is a significant change that may impact your financial future. It is crucial that you make the right decision for your needs. To help you achieve the best outcome, we encourage you to speak to a qualified financial planner who understands your scheme and situation.

CSC's authorised financial planners provide a financial advice service that can assist you in reaching your financial goals. It is 'fee for service' advice, which means you receive a fixed quote upfront. There are no obligations, commissions or hidden fees. To arrange an initial appointment please call **1300 277 777** during business hours.

Background

The Transfer Balance Cap (TBC) is a new concept in superannuation, and the application of this measure varies depending on the type of pension you are receiving. This factsheet provides an overview of how the Transfer Balance Cap applies to CSS pensions. It is not intended to provide a comprehensive overview of the general workings or application of the cap outside of CSS.

If you have any other superannuation pension products outside of CSS, it is strongly recommended you visit **ato.gov.au** or speak to a licenced financial planner or accountant to fully understand the impacts of this measure.

Who should read this?

Members who are in receipt of a CSS pension. The information contained within this factsheet is particularly important for members with:

- a pension entitlement of more than $100,000 per annum
- a pension entitlement that is likely to exceed $100,000 per annum with future CPI increases
- additional pension products outside of CSS.

CSC – CSS Commonwealth Superannuation Scheme

Commonwealth Superannuation Corporation (CSC) ABN: 48 882 817 243 AFSL: 238069 RSEL: L0001397
Trustee of the Commonwealth Superannuation Scheme (CSS) ABN: 19 415 776 361 RSE: R1004649

What is the Transfer Balance Cap?

From 1 July 2017, a limit applies to superannuation income streams (i.e. pensions) that receive concessional tax treatment. This limit is called the Transfer Balance Cap (TBC) and has been set at $1.6 million for the 2017–18 financial year. All pension products received by a member will be valued and recorded against the cap, which is managed by the Australian Taxation Office (ATO).

If a member's pension products are valued at more than $1.6 million, they will usually be required to commute a portion of the pension to a lump sum to bring the value of the pension under the TBC and pay tax on the notional earnings attributable to the excess capital. However, CSS pensions – which are classed as capped defined benefit income streams – are **not** subject to this requirement. Instead, the concessional tax treatment applied to the pension will be restricted. This will be covered in more detail later in this factsheet.

If your CSS pension is less than $100,000 and you do not have any pension products with another provider, it is not likely you will be impacted by this measure. However, you should keep the TBC in mind if your circumstances change in future.

How does it work?

When you first start a superannuation pension, a Transfer Balance Account (TBA) will be established on your behalf. If you were in receipt of a pension on 1 July 2017, your TBA was established on this date.

Your TBA is a transactional summary managed by the ATO. It records the values of your pension products, and works on a system of credits and debits. A credit increases the balance of your TBA, whereas a debit decreases the balance. Generally, CSS will only calculate a credit when your pension commences. Subsequent credits and debits are administered by the ATO, and any questions regarding these values should be directed to them.

Your pension/s is valued by the relevant provider/s and this value is reported against your TBA as a credit. Should your circumstances change, additional credits and debits may be reported against your TBA by the provider/s at a later date.

If you are in receipt of another superannuation income stream outside of CSS, the TBC Credit calculated in respect of that income stream may reflect a lump sum value that is invested or can be commuted or withdrawn. However, this is not the case for CSS pensions. Your pension is drawn from consolidated revenue, which means the credit calculated in respect of your CSS pension is a notional value. It does not represent a lump sum that you can access in addition to (or in lieu of) your fortnightly pension payments.

Credits

The following items are classed as a credit:

- The value of an existing pension entitlement on 1 July 2017.
- The value of new pension entitlements commenced after 1 July 2017.
- Notional earnings that accrue on excess transfer balance amounts (not applicable to CSS).

The following items are **not** classed as a credit:

- Positive growth (i.e. earnings or CPI increases) on amounts transferred into the retirement phase.
- Structured settlements or personal injury payouts paid into a retirement phase account.

Debits

The following items are classed as a debit:

- Commutations/lump sum withdrawals (not applicable to CSS).
- Amounts rolled back into the accumulation phase (not applicable to CSS).
- Anomalous situations, such as fraud, bankruptcy or family law splits, as approved by the Commissioner for Taxation.

The following items are **not** classed as a debit:

- Negative growth (i.e. earnings) on amounts transferred into the retirement phase.
- Draw down amounts (i.e. regular pension payments).

CSS will calculate and report a value on your behalf when your pension commences. If the value of your CSS pension is more than the TBC of $1.6 million, you will not be permitted to remove any amount in excess of the cap. However, you will be unable to purchase additional pension products outside of the defined benefit environment as you will be regarded as having met your cap. Similarly, if your CSS pension is valued at less than $1.6 million, the value will need to be taken into account for any other pension products you have or may plan to purchase.

Example: CSS pension valued at less than $1.6 million

Andrew is in receipt of a CSS pension on 10 September 2017, which has been valued at $900,000. Andrew has $700,000 remaining cap space for other superannuation pension products.

Example: CSS pension valued at more than $1.6 million

Mary is in receipt of a CSS pension on 10 September 2017, which has been valued at $1,700,000. Mary has used all of her cap and cannot purchase any additional superannuation pension products outside of the defined benefit environment.

How is my CSS pension valued?

CSS pensions are valued by multiplying the 'annual entitlement' by a factor of 16. The annual entitlement is calculated by multiplying your daily rate of pension (i.e. fortnightly pension/14) by 365.

The annual entitlement will be based on the first regular pension payment received at the time your entitlement commences. For existing pensioners on 1 July 2017, the pension payment made on 6 July 2017 was used as the basis of this calculation.

Example:

Julie claims a CSS pension on 1 October 2017. Her first regular pension payment is $3,116.44 gross per fortnight.

A value of $1.3 million ($3,116.44 / 14 x 365 x 16) is reported as a credit against Julie's TBA.

Generally, a valuation will only be performed once, and this valuation will be reported to the ATO as a credit by CSS. However, a value may be recalculated if retrospective changes are made that affect the original valuation.

Please note: pensions not classed as a defined benefit pension will be valued differently. You will need to contact the ATO or the relevant provider for more information if you are in receipt of other products such as an account based pension, term pension or market–linked pension.

What happens if my CSS pension is valued at more than $1.6 million?

A CSS pension of $100,000 will be regarded as having reached the cap (i.e. $100,000 x 16 = $1.6 million). If you reach or exceed the cap, you will not be permitted to remove the excess amount, however your concessional tax treatment will be restricted (see **How will my pension be taxed?**).

While CSS pensions are protected from removal, the TBC is a single lifetime cap applied to an individual, and applies collectively to all superannuation pensions held by that individual.
The value of your CSS pension will impact any other superannuation products you hold outside of CSS. If you have more than one pension product, each product will be valued and reported by the respective provider.

Will future CPI growth applied to my CSS pension be reported against the cap?

No. Your pension will only be valued once (with the exception of re–reporting where changes are made that affect the original value reported). Subsequent growth after a value is calculated – such as CPI increases – will not be reported against the cap.

Will my indexed and non-indexed pension both be valued under the cap?

Yes. Your total gross pension will be used in calculating the value.

How will my CSS pension be taxed?

CSS pensions over $100,000 per annum in the 2017–18 financial year are regarded as having reached the cap (ie $100,000 x 16 = $1.6 million). Concessional tax treatment will be restricted. These restrictions will only affect recipients who are over age 60, or those in receipt of a reversionary pension that have over–60 tax treatment applied.

All pension entitlements are treated as standalone benefits, even if you have more than one entitlement administered by CSC. You will need to inform CSC if you need additional tax withheld from your pension to meet your tax liabilities. Please note you will need to nominate an amount of additional tax to be withheld, we cannot calculate this for you.

Treatment applied to taxed pensions

50% of any amount of a taxed pension over $100,000 (or $3,846.15 per fortnight) will be included in your assessable income–this includes both the tax–free and taxable taxed components of the pension.

Example – Member aged 60, pension fully funded

Component	Value (fortnightly)
Tax Free Component (TF)	$2,308.00
Taxable Taxed Component (TT)	$3,462.00
	Post 1 July 2017 Treatment
Total Pension	$5,770.00
Assessable	$961.92 ($1,923.85 excess x 50%)
Tax as per PAYG tables*	$60
Offset	N/A
Tax to be withheld	$60

* calculated based on fortnightly PAYG rates for 2017–18 FY and claiming the tax free threshold.

Treatment applied to untaxed pensions

Any amount of an untaxed pension (the taxable untaxed component) over $3,846.15 per fortnight will be taxed at full marginal rates. The 10% offset will be limited to $384.61 per fortnight.

Example – Member aged 60, pension fully unfunded

Component	Value (fortnightly)
Taxable Untaxed Component (TU)	$5,770.00
	Post 1 July 2017 Treatment
Total Pension	$5,770.00
Assessable	$5,770.00
Tax as per PAYG tables*	$1,776.00
Offset	$384.61 (10% of TU under threshold)
Tax to be withheld	$1,391.00 (rounded)

* calculated based on fortnightly PAYG rates for 2017–18 FY and claiming the tax free threshold.

Treatment applied to hybrid pensions

For hybrid pensions that contain both a taxed and untaxed element, a 'stacking' approach is applied. The untaxed component will be stacked on top of the taxed component before determining the tax treatment to be applied.

Example – Member aged 60, hybrid pension with excess made up of untaxed components only

Component	Value (fortnightly)
Tax Free Component (TF)	$1,154.00
Taxable Taxed Component (TT)	$2,308.00
Taxable Untaxed Component (TU)	$3,462.00

	Post 1 July 2017 Treatment
Total Pension	$6,924.00
Assessable	$3,462.00 (TU only)
Tax as per PAYG tables*	$876.00
Offset	$38.46 (10% of TU under threshold)
Tax to be withheld	$838 (rounded)

* calculated based on fortnightly PAYG rates for 2017–18 FY and claiming the tax free threshold.

Both the Tax Free ($1,154) and Taxable Taxed ($2,308) components will remain tax free as they are under the $3,846.15 threshold. The remaining $384.15 of the threshold will be made up of the Taxable Untaxed component, meaning the remaining $3,077.85 of the Taxable Untaxed component will be taxed at full marginal rates and will not be eligible for the 10% offset. Although a portion of the Taxable Untaxed falls under the threshold, the entire amount is still considered assessable income – it is only the offset that is dependent on the threshold.

Example – Member aged 60, hybrid pension with excess made up of taxed and untaxed components

Component	Value (annual)
Tax Free Component (TF)	$1,538.00
Taxable Taxed Component (TT)	$2,692.00
Taxable Untaxed Component (TU)	$3,846.00

	Post 1 July 2017 Treatment
Total Pension	$8,076.00
Assessable	$4,037.92 (TU + 50% of TT excess)
Tax as per PAYG tables*	$1,100.00
Offset	Nil
Tax to be withheld	$1,100.00

* calculated based on fortnightly PAYG rates for 2017–18 FY and claiming the tax free threshold.

The Tax Free ($1,538) component will remain tax free as it is under the threshold. The remaining $2,308.15 of the threshold will be made up of the Taxable Taxed component, meaning 50% of the remaining $383.85 of the Taxable Taxed component will be included as assessable income and taxed at full marginal rates. As there is no unused cap space left, the Taxable Untaxed component will be taxed at full marginal rates and will not be eligible for the 10% offset.

Do these changes mean I can't claim a CSS pension of more than $100,000?

No, these changes do not affect your options under the scheme rules. If your pension entitlement is worth more than $100,000 per annum, you will not be required to claim a lesser amount. Instead, tax concessions will be restricted.

Does the TBC impact the assets test?

It is our understanding that the TBC has not impacted the way CSS pensions are treated under the assets test.

Does the TBC apply to CSS invalidity pensions?

Yes, the TBC applies to invalidity pensions in the same way as any other CSS pension – that is, the annual entitlement will be multiplied by a factor of 16.

However, if your pension is reduced, suspended or cancelled, you may be eligible to have a debit calculated to reflect that change. As CSS cannot report a debit on your behalf, you will need to discuss this with the ATO directly.

Does the TBC apply to CSS reversionary pensions?

Pensions paid to the dependents of a deceased member ('reversionary' pensions) are included under the TBC. However, the treatment of these pensions may vary depending on who the pension is paid to, or whether the member was in receipt of the pension before they died.

Benefits paid to a spouse and associated children (where the member did not claim a pension before they died)

The pension paid to the spouse – including any portion paid in respect of a child – will be used to calculate a TBC credit that will be reported against the TBA of the spouse. There is no provision to make adjustments to this value when the pension is reduced as each child ceases to be eligible.

Example:

James was a contributing member of CSS when he passed away in September 2017. His spouse, Lesley, is found eligible under the scheme rules and is entitled to a reversionary pension of $1,780 per fortnight. This amount includes a spouse portion of $1,340 and an additional $440 in respect of their two children. The child portion of the benefit will cease when the children are no longer classed as dependent children under the scheme rules, so this portion of Lesley's benefit is temporary. However, as the TBC credit is based on the amount of the first pension payment, the TBC credit reported against Lesley's TBA will include the child's portion and would be $742,514.29 ($1,780 ÷ 14 x 365 x 16).

Benefits paid to children in their own right

Where a child is paid a reversionary pension in their own right – that is, there is no eligible spouse, or the child is not living with the eligible spouse – the TBC credit will be reported against the child's TBA on their behalf. The TBA is usually temporary in these situations, however the value of the TBC itself will depend on a number of factors and will be determined by the ATO - depending on a number of factors, the child's TBC may not be $1.6 million. The treatment of these benefits vary and should be discussed directly with the ATO, however a TBC credit will be calculated by CSS by multiplying the annual entitlement by a factor of 16.

Benefits paid to a spouse following the death of a pensioner

If the member was receiving a pension before they died, the first 7 pension payments made to a spouse will usually be based on the original pension rate, rather than the spouse rate. The TBC credit is required to be based on the first pension payment, which means the TBC credit calculated and reported against the spouse's TBA will be based on the original pension rate. No adjustments will be made when the pension reverts to the lesser rate.

Example:

Bill is receiving a pension of $1,000 gross per fortnight when he passes away in August 2017. His spouse, Mary, is found eligible under the scheme rules and is entitled to a reversionary pension of 67% of the original pension rate, or $670 gross per fortnight. When Mary first starts to receive her reversionary pension, she is entitled to 7 fortnights of pension at the original rate of $1,000. As the TBC credit is based on the amount of the first pension payment, Mary's TBC Credit will be $417,142.86 ($1,000 ÷ 14 x 365 x 16).

There are no changes to eligibility for tax concessions, but reversionary pensions will be subject to the new tax restrictions for pensioners over 60. These changes also apply if the member was aged 60 or older at the date they died.

What happens if I have a Family Law split?

The treatment of your pension under the TBC will depend on whether the family law split occurs in the growth or payment phase.

If the split is applied in the growth phase, both the member and non–member spouse entitlement will be subject to the standard rules when they claim their benefit–that is, the annualised entitlement they receive will be multiplied by 16 and reported against their individual TBAs.

If the split is applied in the payment phase, a series of debits and credits will be applied to the TBA of both the member and non–member spouse to reflect the entitlement.

These debits and credits will be determined by the ATO, not CSS. All enquiries regarding these calculations should be referred to the ATO.

How can I get more information?

The role of CSS is to calculate and report a credit against your TBA. We cannot advise you of the balance of your TBA or how much cap space you have remaining.

After the value has been determined, the management of the cap is a matter between yourself and the ATO.

If you have any questions about the impact the TBC will have on your CSS entitlement, or the amounts that will be reported by CSS on your behalf. All other enquiries regarding the operation of the TBC should be directed to the ATO. You can call them on**13 10 20** or visit **ato.gov.au** for more information.

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