Transfer balance account – credits and debits

Towards a sustainable superannuation system

In the 2016–17 Budget, the government announced a number of changes designed to improve the sustainability, flexibility and integrity of Australia's superannuation system. One of the changes, from 1 July 2017, is the introduction of a new transfer balance account.

Your transfer balance account tracks the amounts you transfer into or out of retirement phase and allows you to see whether you have exceeded your transfer balance cap. For more information about the transfer balance cap, refer to Guidance note for super 1 – *New transfer balance cap for retirement phase accounts*.

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

This information is for people who:
- **hold (or will hold) retirement phase super accounts, and**
- **want to check whether they have exceeded (or will exceed) their transfer balance cap.**

What is the transfer balance account?

The transfer balance account is a method of tracking transactions and amounts in retirement phase. The balance of your transfer balance account determines whether you have exceeded your transfer balance cap at the end of any given day. The transfer balance cap is a limit on the amount you can hold in retirement phase ($1.6 million in 2017–18).

You will start to have a transfer balance account on:
- 1 July 2017, if you are already receiving a retirement phase income stream at the end of 30 June 2017, or
- the day you first commence receiving a retirement phase income stream.

Your transfer balance account measures your transfer balance, which is the sum of credits less the sum of debits posted to the account.

Changes to your transfer balance account

A change in your transfer balance only occurs when a credit or debit event occurs. Changes in the value of interests in the retirement phase (for example, investment losses) do not affect the transfer balance account. Note that your transfer balance account can have a negative balance when your debits exceed your credits.

You will only have one transfer balance account for all of your retirement phase interests. Your transfer balance account will remain active until your death. Special rules apply for child death benefit recipients (see Guidance note for super 13 – *New transfer balance cap – child death benefit recipients*).

Australian Government
Australian Taxation Office

Credits to your account

Credits to your transfer balance account increase your transfer balance and reduce your available cap space. The most common transfer balance credit arises when you begin receiving a super income stream (pension) that is in the retirement phase.

The following amounts are credits to your account:

- the total value of any super interests that support retirement phase income streams you are receiving on 30 June 2017
- the value of new retirement phase income streams, including super death benefit income streams and deferred super income streams, that you begin to receive on or after 1 July 2017
- the value of reversionary super income streams at the time you become entitled to them (although the timing of the credit may differ in certain circumstances)
- the excess transfer balance earnings that accrue on any excess transfer balance amount you have.

For a capped defined benefit income stream, the credits above are calculated on the special value of the income stream.

The *Treasury Laws Amendment (2017 Measures No.2) Act 2017* provides for an additional credit where a super fund makes a payment towards a limited recourse borrowing arrangement. This payment increases the value of retirement phase interests.

The value of your super interests will be calculated by your super fund(s) and notified to us. If you believe the value is incorrect you should contact your super fund(s).

Excess transfer balance earnings

If your transfer balance exceeds your transfer balance cap, you will have an 'excess transfer balance'. If you have an excess transfer balance, we will calculate your 'excess transfer balance earnings' and credit this amount to your transfer balance account.

You can transfer the excess to an accumulation account or out of super. You will need to ensure you remove an amount large enough to cover both your excess and your excess transfer balance earnings.

For more information, refer to Guidance note for super 15 – *Excess transfer balance*.

Debits to your account

Debits to your transfer balance account may:

- reduce your excess transfer balance, and/or
- increase your available cap space.

Events that cause your account to be debited include commutations, structured settlement contributions, and certain other events that cause a change in the value of your retirement phase interests.

Commutations

Your transfer balance account is most commonly debited when you fully or partially commute a retirement phase income stream. A commutation is the exchange of part or all of the value of your income stream for a lump sum. This lump sum can be paid out of the super system, or it can be transferred to an accumulation phase account (unless it is a death benefit income stream).

When a super income stream is fully or partially commuted, your transfer balance account is debited by the value commuted. The debit arises when you receive the lump sum, and applies whether you choose to transfer the lump sum to an accumulation account or withdraw it from super.

You must commute an income stream before you can roll it over to another fund.

Pension payments from your retirement phase account(s) are not commutations and are not debited from your transfer balance account.

Structured settlement contributions

A debit arises for a structured settlement that you receive (as payment for a personal injury you have suffered) and contribute towards your accumulation or retirement phase super interests.

The debit is equal to the amount of the contribution, and arises in your transfer balance account, either when the contribution is made or when you start to have a transfer balance account (whichever is later).

The *Treasury Laws Amendment (2017 Measures No.2) Act 2017* modifies the amount of this debit for structured settlement contributions made before 1 July 2017. If the total credits on 1 July 2017 are more than the amount of the structured settlement contribution, the debit will be equal to the total of those credits.

Events resulting in a reduction of your super interest

You may be entitled to a debit in your transfer balance account if you lose some or all of the value of your super interests through events such as fraud, dishonesty, or void transactions under the *Bankruptcy Act 1966*.

If affected, you must notify us in the approved form. The debit is the amount by which the value of your super interests has reduced. The debit arises in your transfer balance account at the time of the loss. It is applied retrospectively to correct any temporary breach of your transfer balance cap.

Payment split upon divorce or relationship breakdown

Super interests may be split as part of the division of property following a divorce or relationship breakdown. One party (the member spouse) will be required to provide a proportion of their retirement phase super interest(s) to the other party (the non-member spouse).

For either spouse, the debit arises either when the payment split becomes operative (under the *Family Law Act 1975*) or when they start to have a transfer balance account (whichever is later).

For more information, refer to Guidance note for super 12 – *New transfer balance payment splits*.

Failure to comply with pension or annuity standards

If your super fund fails to comply with the rules or standards for your income stream, that income stream may cease to meet the definition of a 'superannuation income stream'. This means it will no longer be eligible for the earnings tax exemption.

The most common situation is where the super fund fails to pay the minimum pension amount required for a financial year under the regulatory rules. If this occurs, for transfer balance cap purposes, the income stream is taken to have stopped meeting the definition at the end of that financial year.

The debit equals the value of your income stream just before it stops meeting the definition. The debit arises in your transfer balance account when the income stream stops meeting the definition. This debit means you will be able to fully commute the income stream, and start a new one that complies with the pension or annuity standards, without breaching your transfer balance cap.

Failure to comply with a commutation authority

If we issue your super fund with a commutation authority and they fail to comply with it, the relevant income stream may cease to be in the retirement phase. This means it will no longer be eligible for the earnings tax exemption.

The debit equals the value of your income stream at the end of the period specified in the commutation authority. The debit arises in your transfer balance account at the end of that period.

Non-commutable excess transfer balance

In some situations, you may have an excess transfer balance and no remaining retirement phase income streams you can use for the excess. For example, you may only hold a capped defined benefit income stream, which cannot be commuted.

If your super fund notifies us that you have insufficient value to commute your excess transfer balance, we will issue you a notice and raise a debit in your transfer balance account. This effectively writes off the excess. The debit arises in your transfer balance account when we issue the notice.

Table 1: What you need to do before 30 June 2017

Situation	Action
If you are already (prior to 1 July 2017) receiving income from a super income stream	Your transfer balance account will begin on 1 July 2017. You will be credited for the total value of the super interests that support the retirement phase income streams you are receiving on 30 June 2017. The credit(s) will arise in your transfer balance account on 1 July 2017. Credits will increase your transfer balance and reduce your available cap space. Check with your super fund(s) whether the total value of your retirement phase interest(s) is likely to be more than $1.6 million on 1 July 2017. If it is over, you can: ■ transfer the excess back into an accumulation account, or ■ withdraw the excess from super. Special valuation rules apply to any capped defined benefits super income stream you receive. You will need to contact your super fund(s) to work out the value of your capped defined benefit income stream(s).

Table 2: What you need to do from 1 July 2017

Situation	Action
If you commence a new income stream on or after 1 July 2017	Your transfer balance account will begin on the date you commence receiving a retirement phase income stream. You will be credited for the value of new retirement phase income streams (including new super death benefit income streams and deferred super income streams) that you begin to receive on or after 1 July 2017. A credit will arise in your transfer balance account on the date you start receiving the income stream. Credits will increase your transfer balance and reduce your available cap space. Check with your super fund(s) whether the total value of your retirement phase interest(s) is likely to be more than your transfer balance cap ($1.6 million in 2017–18). If it is over, you can: ■ transfer the excess back into an accumulation account, or ■ withdraw the excess from super. Special valuation rules apply to any capped defined benefits super income stream you receive. You will need to contact your super fund(s) to work out the value of your capped defined benefit income stream(s).

Example 1: Receiving a reversionary death benefit income stream – Mia

- 62 years old
- Retires on 1 January 2018
- $1 million in retirement phase account
- Husband Marc dies on 20 September 2018
- Marc had $800,000 in retirement phase account at time of death

Mia retires and starts an account-based income stream valued at $1 million on 1 January 2018. Mia's transfer balance account starts on 1 January 2018 and is credited with $1 million (the value of her retirement phase income stream). She still has $600,000 of transfer balance cap space available.

On 20 September 2018, Mia's husband Marc dies. Marc's reversionary account-based income stream (valued at $800,000 at the time of his death) reverts to Mia.

Mia's transfer balance account will be credited with $800,000. However, the credit will not arise in her transfer balance account until 20 September 2019, 12 months after Marc's death, giving Mia time to plan her financial affairs.

On 2 June 2019, Mia partially commutes $200,000 out of her account-based income stream as a lump sum, creating a debit of $200,000 in her transfer balance account.

On 20 September 2019, Mia's transfer balance account is credited with $800,000 (the value of Marc's income stream on the date of his death). Mia's transfer balance is $1.6 million and she has no transfer balance cap space remaining.

The transactions in Mia's transfer balance account are displayed in the table below.

Transactions in Mia's transfer balance account

Date	Transaction	Debit	Credit	Transfer balance
1 Jan 2018	Transfer balance account commences		$1,000,000	$1,000,000
2 Jun 2019	Partial commutation	$200,000		$800,000
20 Sep 2019	Credit for reversionary death benefit income instream		$800,000	$1,600,000

Example 2: Commutation and excess transfer balance – Paolo

- 65 years old
- Retired
- $2 million in retirement phase account

Paolo starts an account-based income stream valued at $2 million on 1 August 2016. The value of his income stream is $1.95 million on 30 June 2017 due to investment losses. Paolo's transfer balance account starts on 1 July 2017 and is credited with $1.95 million.

Paolo's transfer balance exceeds his transfer balance cap of $1.6 million, so he has an excess transfer balance of $350,000 at the end of 1 July 2017. Excess transfer balance earnings accrue on the excess and are credited to Paolo's transfer balance account daily.

On 1 August 2017, Paolo partially commutes this excess, taking $353,000 as a lump sum out of super. This covers his excess transfer balance ($350,000) and the earnings accrued during the 31 days he had an excess ($2,745.15).

A debit of $353,000 arises in Paolo's transfer balance account on the date he receives the lump sum.

Paolo's resulting transfer balance is $1,599,745.15, so he no longer exceeds his transfer balance cap. Paolo will also be liable to pay excess transfer balance tax.

The transactions in Paolo's transfer balance account are displayed in the table below.

Transactions in Paolo's transfer balance account

Date	Transaction	Debit	Credit	Transfer balance
1 Jul 2017	Transfer balance account commences		$1,950,000	$1,950,000
2 Jul – 1 Aug 2017	31 days of excess transfer balance earnings		$2,745.15	$1,952,745.15
1 Aug 2017	Partial commutation	$353,000		$1,599,745.15

Example 3: Structured settlement contribution – Taj

- 61 years old
- Retired
- $700,000 in retirement phase account

Taj has an account-based income stream valued at $700,000 on 30 June 2017. His transfer balance account starts on 1 July 2017 and is credited with $700,000.

In late 2017, Taj is seriously injured in a car accident. He undertakes legal proceedings against the driver of the other car and is awarded a court ordered structured settlement of $3.5 million on 15 May 2018.

On 16 May 2018, Taj contributes the $3.5 million into his fund. He notifies the trustee of his super fund and the ATO that the contribution is a structured settlement contribution.

Taj immediately commences another income stream with his structured settlement contribution. Taj's transfer balance account is credited by $3.5 million for the income stream commenced using the structured settlement contribution. It is also debited $3.5 million for the same contribution. Taj never has an excess transfer balance, because the credit and debit arise on the same day (16 May 2018), and excess transfer balance is measured at the end of each day.

Taj's transfer balance is $700,000 at the end of 16 May 2018. Taj may start another account-based income stream valued up to $900,000 without exceeding his transfer balance cap of $1.6 million.

The transactions in Taj's transfer balance account are displayed in the table below.

Transactions in Taj's transfer balance account

Date	Transaction	Debit	Credit	Transfer balance
1 July 2017	Transfer balance account commences		$700,000	$700,000
16 May 2018	Structured settlement contributed to super fund	$3,500,000	$3,500,000	$700,000

Example 4: Income stream that fails to comply with pension rules and standards – Yukari

- 63 years old
- Retired
- $1.5 million in retirement phase account

Yukari starts an account-based income stream valued at $1.5 million on 28 January 2018 from her self-managed super fund (SMSF). Her transfer balance account starts on 28 January 2018 and is credited with $1.5 million (the value of her retirement phase income stream).

At the end of 2017–18, Yukari's SMSF has not paid her required minimum pension amount, which is a failure to comply with the pension rules and standards. For transfer balance cap purposes, Yukari's income stream stops being a super income stream in the retirement phase at this time.

On 30 June 2018, the value of Yukari's income stream is $1.45 million (as a result of investment losses). Due to the SMSF's failure to comply with pension standards, Yukari's transfer balance account is debited by $1.45 million on 30 June 2018.

If the SMSF trustee wishes to receive an earnings tax exemption for Yukari's interest, Yukari must cease her income stream and start a new account-based income stream that complies with the relevant pension rules and standards.

Yukari's transfer balance is now $50,000, so she can start a new account-based income stream valued up to $1.55 million without exceeding her transfer balance cap.

The transactions in Yukari's transfer balance account are displayed in the table below.

Transactions in Yukari's transfer balance account

Date	Transaction	Debit	Credit	Transfer balance
28 Jan 2018	Transfer balance account commences		$1,500,000	$1,500,000
30 Jun 2018	Income stream ceases due to failure to comply with pension standards	$1,450,000		$50,000

Example 5: Failure to comply with commutation authority – Luke

- 60 years old
- Retired
- $1.9 million in retirement phase account

Luke commences an account-based income stream valued at $1.9 million on 1 July 2018 from his SMSF. His transfer balance account starts on 1 July 2018 and is credited with $1.9 million. He has exceeded his transfer balance cap ($1.6 million), and has an excess transfer balance of $300,000.

On 24 September 2018, the ATO issues an excess transfer balance determination, requiring Luke to remove $306,495.92 (excess of $300,000, plus 85 days of excess transfer balance earnings).

On 3 December 2018, the ATO issues the trustee of Luke's SMSF with a commutation authority requiring them to commute $306,495.92 from Luke's income stream. The SMSF trustee does not comply with the commutation authority within the 60-day time limit. As a result, Luke's income stream ceases to be in the retirement phase from 1 February 2019 (the end of the 60-day time limit), and is no longer eligible for the earnings tax exemption.

On 1 February 2019, the value of Luke's income stream is $1.88 million (as a result of investment losses). Due to the SMSF trustee's failure to comply with the commutation authority, Luke's transfer balance account is debited $1.88 million on 1 February 2019.

Luke's transfer balance is now $26,495.92. He will not exceed his transfer balance cap if he starts a new account-based income stream valued up to $1,573,504.08. Luke will also be liable to pay excess transfer balance tax.

The transactions in Luke's transfer balance account are displayed in the table below.

Transactions in Luke's transfer balance account

Date	Transaction	Debit	Credit	Transfer balance
1 Jul 2018	Transfer balance account commences		$1,900,000	$1,900,000
20 Jul – 24 Sep 2018	85 days of excess transfer balance earnings		$6,495.92	$1,906,495.92
1 Feb 2019	Income stream ceases to be in retirement phase	$1,880,000		$26,495.92

For more information

- **ato.gov.au/superchanges**
- Law Companion Guidelines and Practical Compliance Guidelines are also available, on a range of topics, at **ato.gov.au/law**

Published by

Australian Taxation Office
Canberra
July 2017

JS 38724_16