



## Indexing the Personal Transfer Balance Cap

The General Transfer Balance Cap (GTBC) was introduced from 1 July 2017 and is a cap on the how much you can transfer to a retirement phase pension. The cap ultimately restricts the entitlement your SMSF has to receive a tax exemption on retirement phase earnings. On face value the GTBC concept is relatively straight forward.

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

With a starting GTBC of \$1.6 million, anyone who commenced 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? With the first tranche of occurring from 1 July 2021 this fact sheet explains how the personal transfer balance cap is indexed.

### When does indexation change the GTBC?

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

As indicated above, the reason they can differ is that your individual PTBC will depend on when you first started your retirement-phase income stream. The PTBC is first determined as being equal to the GTBC in the year that you first start to have a Transfer Balance Account (TBA) and receive a retirement phase pension.

### How will indexation affect your Personal Transfer Balance Cap (PTBC)?

The amount of indexation available to you is calculated proportionately based on your available cap space. When the cap is met or exceeded, there is no entitlement to any indexation. Where proportionate indexation is available, this is where it becomes more complex. Once indexation occurs and the GTBC becomes \$1.7 million, an individual can have a PTBC anywhere between \$1.6 million and \$1.7 million.

To reiterate, if you commence a retirement phase income stream for the first time after indexation occurs, your PTBC will be \$1.7 million.

If a retirement phase income stream 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 your TBA was \$1.6 million or more between 1 July 2017 and 30 June 2021, you will have a PTBC of \$1.6 million regardless of whether you subsequently reduced your TBA balance before indexation via a commutation.

Where the full cap has not been utilised, the TBA is used to calculate the proportional increase and thus determining the new PTBC that applies to your affairs. The ATO's online services for individuals, will show your TBA balances and whether your PTBC is proportionately indexed.

**NOTE:** If a reversionary pensioner commences to receive a pension during the 2020/21 financial year but has no other retirement phase pensions, their highest TBA value will be nil (\$0) at 30 June 2021 and 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?

Your 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
- The dollar figure is then added 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% meaning when the GTBC is indexed by \$100,000 they get an extra \$50,000 added to their personal cap. The table below gives a range of examples:

Pension Commencement	Unused Proportion	Indexed Value
\$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 the table above, there is very little purpose in trying to manipulate the caps by short-changing the pension commencement by a few dollars as it won't amount to any significant value when indexation occurs.

#### **Example 1**

John commences his 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  $(\$1.6 \text{ million} - \$1.1 \text{ million}) / \$1.6 \text{ million} = 31\%$  (rounded down)
- John's PTBC will be indexed by  $31\% \times \$100,000 = \$31,000$
- John's PTBC after indexation =  $\$1.6 \text{ million} + \$31,000 = \$1,631,000$

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. We will look at another example to further reiterate the importance of the 'highest ever TBA balance'.

#### **Example 2**

Simone commences her first retirement phase pension on 1 July 2019 for \$1.6 million. Simone then takes a partial commutation of \$800,000 on 1 July 2020.

Her transfer balance account is currently looking like this:

Event	Credit	Debit	Balance
1/07/2019 Pension Commencement	\$1,600,000		\$1,600,000
1/07/2020 Pension Commutation		\$800,000	\$800,000

What happens when indexation comes in on 1 July 2021?

- Indexation of the GTBC occurs and brings the GTBC cap to \$1.7 million
- Simone's PTBC indexation is nil
- Simone's PTBC stays at \$1.6 million
- Simone's available cap space is \$800,000

In this example there is no indexation available to Simone's PTBC as she has already commenced a pension using 100% of her cap at that time, therefore she has no future entitlement to indexation. Simone is entitled to commence a further pension to bring her TBA up to the cap, but it won't be indexed.

## What else will indexation of the GTBC have an impact on?

The increase to the GTBC will also have a significant impact on the following as they are all tied to the value of the GTBC:

- Making non-concessional contributions
- Ability to use the bring forward provisions for non-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 AWOTE figures not CPI. Indexation of the caps will have relevance to the annual bring-forward amount ultimately impacting how much total superannuation balance you can have to use these provisions.

## In conclusion

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