TIP SHEET

Your transfer balance cap for account-based pensions

Changes to superannuation (super) came into effect on 1 July 2017. It is important to reinforce the need for you to take steps to ensure you understand your personal circumstances and consider any necessary action you can take now to prevent or reduce any possible consequences.

Transfer balance cap – how are you tracking after 1 July 2017?

If you hold (or will hold) one or more retirement phase super accounts, you will need to ensure you don't exceed the new transfer balance cap ($1.6 million in 2017-18). The transfer balance cap is a new limit on the total amount of super that can be transferred into retirement phase. All your accounts in retirement phase will be included when working out if you have exceeded your transfer balance cap.

What to do if you are over your transfer balance cap

You are over your transfer balance cap if:

- you were in receipt of one of more retirement phase income streams and, as at 1 July 2017, you had more than $1.6 million supporting those income streams, or
- you have moved money into retirement phase to start an income stream from 1 July 2017 and these amounts are more than $1.6 million.

You need to take action now to minimise or avoid paying additional tax. You don't need to wait for the ATO to contact you.

If you are over your transfer balance cap you must reduce your transfer balance by removing the excess capital and any excess transfer balance earnings. There are two ways to do this:

- transfer the excess, and any excess transfer balance earnings, to an accumulation account, if you are eligible to do so
- pay the amount out of super as a lump sum.

The sooner you take action the less tax you will pay.

Transitional relief expires 31 December 2017 for people over their transfer balance cap by $100,000 or less

You have access to transitional relief if your transfer balance on 1 July 2017 met **all** of the following criteria:

- On 1 July 2017 your transfer balance was between $1.6 million and $1.7 million.
- On 1 July 2017 your transfer balance was made up only of income streams you were receiving just before 1 July 2017.
- You did not start any other income stream before rectifying your excess.

This transitional relief expires on **31 December 2017.** The Commissioner does not have discretion to disregard an excess transfer balance.

The transitional relief only applies where:

- at 30 June 2017, you were over your $1.6 million cap by $100,000 or less, and
- you remove the excess capital by 31 December 2017.

If you don’t remove the excess capital by 31 December 2017, you will still have to remove the excess capital. After that date you will also need to remove the excess transfer balance earnings and pay additional tax.

If you started your income stream (or streams) on or after 1 July 2017, and they are over the $1.6 million transfer balance cap, the transitional relief does not apply to you.

What to do if you are over your transfer balance cap and the transitional relief doesn’t apply to you

You will need to ensure you remove an amount large enough to cover both your excess capital and your excess transfer balance earnings. The excess transfer balance earnings are calculated daily and equal to the general interest charge (GIC). The annual GIC rate is 8.7% in 2017-18.

You will need to calculate enough earnings to cover the period from the day you went into excess until the day they are removed. The sooner you remove the excess the less tax you will pay.

What the ATO will do

From early 2018, we will start advising you if we believe you have an excess transfer balance. When we identify that you have an excess transfer balance, we will calculate your excess transfer balance earnings so you don’t need to do so. We will also send you an Excess Transfer Balance Determination (ETBD) telling you how much you need to remove from retirement phase.

The ETBD is a formal notification to alert you to check your balance and to take any necessary action to remove the excess within 60 days from the date on the ETBD.

When we identify you are no longer in excess we will also issue you with an excess transfer balance tax assessment. The excess transfer balance tax is due and payable 21 days after the assessment is issued to you.

How much tax you will have to pay

If you have an excess transfer balance, you will also need to pay excess transfer balance tax on the excess transfer balance earnings. Once you are no longer in excess, the ATO will calculate your excess transfer balance earnings from the day you went into excess until the day you removed the excess. You will need to pay tax on this amount. The tax rate is 15% in 2017-18.

From 1 July 2018, the tax rate is 15% the first time you have an excess transfer balance. It then increases to 30% if you have an excess transfer balance for a second or subsequent time.

Excess transfer balance tax cannot be paid by your super providers and GIC will accrue if any amount remains unpaid after the due date.

How to check your transfer balance account

From January 2018, you will be able to go online through myGov and see your transfer balance account, including details of the information that your super funds have reported to us. Before January 2018, you will need to contact your fund directly to get this information.

If you have an income stream being paid from your SMSF, it is important that you keep track of your transfer balance. SMSFs will not be required to report this information to us until 1 July 2018, limiting our ability to display dated information online for members.