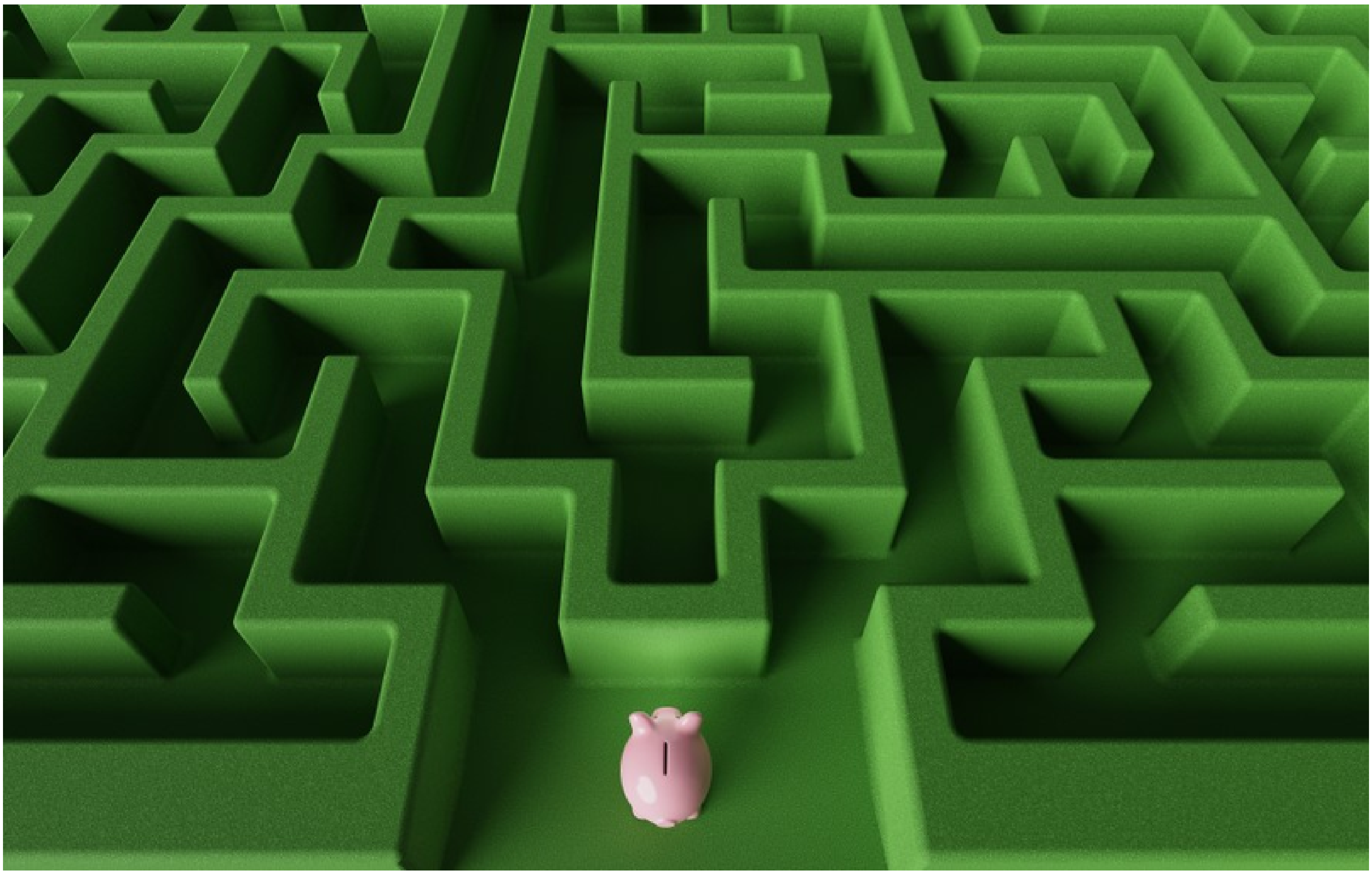
DLK ADVISORY

PENSION TRANSFER BALANCE CAP 2024-25



The transfer balance cap was originally introduced in 2017 as a way to limit the amount of capital that can be transferred into a tax-exempt retirement phase. This was implemented in response to criticism that the super system was being used by the wealthy for estate planning purposes rather than retirement, and that the soaring cost of tax concessions for fund members threatened the sustainability of the entire super system.

As originally introduced, the transfer balance cap was set at $1.6m; however, indexation applied to the general transfer balance cap from 1 July 2021 in line with the consumer price index (CPI) in $100,000 increments. As a result, the current transfer balance cap for the 2023-24 income year is $1.9m. Based on the release of CPI index numbers from the ABS, this figure of $1.9m will also apply for the 2024-25 income year as the CPI figure for December 2023 was not large enough to trigger a $100,000 increase.

It should be noted that the transfer balance cap is a lifetime limit on the amount an individual can transfer into one or more retirement phase accounts. Individuals will have a personal transfer balance cap equal to the general transfer balance cap when a retirement phase income stream is commenced for the first time. For example, if an individual commences a retirement stream in the 2024-25 income year, their personal transfer balance cap will be $1.9m.

According to the Association of Super Funds Australia (ASFA), the lump sum needed at retirement to support a comfortable lifestyle is $690,000 for a couple or $595,000 for a single person (assuming a partial Age Pension). Therefore, a personal transfer balance of $1.9m where an individual can transfer that amount into a retirement phase and have the earnings on the assets be tax-free would support a more than comfortable lifestyle.

For individuals that started their retirement phase income stream in an earlier year with a lower general transfer balance cap, if the full amount of the personal transfer balance cap was never used, proportional indexing may apply. This means that individual's personal transfer balance cap will be indexed based on the highest ever balance in the transfer balance account.

Example

Grace starts a retirement phase income stream with a value of $595,000 on 1 January 2022 when the general transfer balance cap was $1.7m. Assuming no other movements in her transfer balance account, the unused cap percentage is:

$595,000/$1.7m = 0.35 or 35% meaning Grace is using 35% of the cap

The unused cap percentage is therefore 100% - 35% = 65%

Grace's personal transfer balance cap will then be indexed by 65% of the increment it has increased by. The cap for the 2023-24 and 2024-25 year is $1.9m so that increment is 200,000 ($1.9m - $1.7m).

200,000 x 65% = 130,000

Meaning Grace's personal transfer balance cap for either the 2023-24 or the 2024-25 income year will be $1.83m ($1.7m + $130,000)

It should be noted that if Grace commenced a retirement income stream to the value of $1.7m on 1 January 2022, she would not be entitled to any indexation as the value of the income stream equals the general transfer balance cap. This is the case even if she commutes the pension in part of in full.

Where an individual exceeds their personal transfer balance cap, the excess is required to be commuted and excess transfer balance tax would need to be paid. The ATO will generally send out and excess transfer balance determination to advise taxpayers that have exceeded their personal transfer balance. Among other things, the determination will set out the due date for commutation. Once the excess is removed, it will then send an excess transfer balance tax assessment indicating the amount of excess transfer balance tax owed.

CONTACT

If you have any queries, please feel free to contact us.

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