

Transfer Balance Cap - Increase to \$1.9m

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The maximum balance a superannuation member can move into the tax-free retirement (pension) phase is presently \$1.7 million. This is due to a limit introduced in 2017 known as the Transfer Balance Cap (TBC). This cap will be increased by \$200,000 with effect on 1 July 2023. However, this new TBC won't apply to everyone. We explore some of the implications below.

How the Transfer Balance Cap (TBC) operates

The general TBC limits the amount of superannuation that can be transferred from an 'accumulation account' into a 'retirement phase' income stream account over a person's lifetime. In other words, the government enforces a cap on the amount in pension phase, where investment earnings are tax free. Once that transfer has been made, any money held in pension mode can continue to grow (e.g. if earnings outweigh pension withdrawals and other costs).

It is worth noting that the TBC applies per superannuation member (not per superannuation fund). In addition, all individuals have their own personal TBC. A Transfer Balance Account (TBA) relative to the available cap is what determines whether you're eligible to transfer additional amounts to retirement phase pensions in the future.

From 1 July 2023, an increase of \$200,000 will apply to the current general TBC of \$1.7 million.

For those who have already commenced a retirement phase pension and utilised the full \$1.7 million limit, the underlying personal TBC remains at \$1.7 million. Another \$200,000 cannot

automatically be added to a pension account next financial year. Similarly, this rule applies to those that were subject to the \$1.6 million TBC that applied between 1 July 2017 and 30 June 2021.

Opportunities to make use of the \$1.9m limit

Anyone who has not previously commenced a retirement phase pension will benefit from the full \$200,000 indexation. This is an important consideration as for these individuals, the TBC will increase to \$1.9 million at 1 July 2023.

Moving into retirement phase before 1 July 2023 would mean that, at most, a pension could be commenced with \$1.7m (i.e. the value of the TBC for the current 2022/23 year).

In addition, for those who have commenced a retirement phase pension but have not fully utilised their cap (i.e. highest ever balance in the Transfer Balance Account between \$0 – \$1.7 million) may benefit from indexation but only on a proportional basis. The indexation applies proportionally based on the 'unused cap percentage' of the personal TBC.

Example calculating the unused cap percentage: Andrew has a retirement phase income stream which commenced on 1 February 2023 with \$850,000. Based on current rules (i.e. TBC \$1.7 million), his unused cap is recorded as \$850,000. Looking forward, Andrew's new personal TBC allowance after the indexation on 1 July 2023 will be \$950,000. This is calculated by summing the \$850,000 unused limit plus a proportional adjustment (50% of the \$200,000 increase).

Conclusion

The application of the Transfer Balance Cap comes with both opportunities and complexities. Feel free to contact your adviser should you wish to discuss how these changes affect your superannuation.

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