FUNDAMENTALLY SPEAKING

A simple explanation of the finance terms we all hear about but don't really understand

Super transfer balance cap adds number of limitations

ROWAN JONES

When it comes to super, the strategy has always been simple.

Get as much money as you can inside your super fund because when you start a pension your fund effectively becomes a tax-free vehicle.

Once upon a time it didn't matter how much money you had in pension phase. But a few years back the government introduced a cap on the amount you could have in pension phase, formally known as the transfer balance cap. When introduced the limit was $1.6 million but it increased to $1.7m on July 1 this year. This increase has a number of potential implications.

If you had started a pension (pre-July 1) and used your full $1.6m TBC you will still be subject to the $1.6m limit — you can't add another $100,000 to your pension account.

For those who started a pension but didn't use the full $1.6m cap, they will be entitled to a proportionate increase in their personal TBC. For example, if you started a pension and used 50 per cent of your TBC by transferring $800,000 into pension phase, you can now add another $850,000 (i.e. $800,000 of your unused limit plus 50 per cent of the $100,000 increase) to your pension account.

The TBC does create some confusion. Many mistakenly think the cap is the maximum you can have inside your fund. This is not the case. It just means when you start a pension anything above the TBC must remain in accumulation phase. So instead of the investment earnings being tax-free they are taxed at 15 per cent. The excess could also be withdrawn from super altogether. It should also be remembered that the TBC is per member, not per super fund.

Rowan Jones is an adviser with Entrust Wealth Management

Illustration: Don Lindsay