



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.

This publication has been compiled by Entrust Wealth Management, a division of Euroz Hartleys Limited ABN 33 104 195 057 AFSL 230052.

This publication is current as at time of preparation. Past performance is not a reliable indicator of future performance. Any outlooks in this publication are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the outlooks given in this publication are based are reasonable, the outlooks may be based on incorrect assumptions or may not take into account known or unknown risks and uncertainties. The results ultimately achieved may differ materially from our outlooks. Material contained in this publication is an overview or summary only and it should not be considered a comprehensive statement on any matter nor relied upon as such. The information and any advice in this publication do not take into account your personal objectives, financial situation or needs and so you should consider its appropriateness having regard to these factors before acting on it. This publication may contain material provided directly by third parties and is given in good faith and has been derived from sources believed to be reliable but has not been independently verified. We are not responsible for such material. To the maximum extent permitted by law: (a) no guarantee, representation or warranty is given that any information or advice in this publication is complete, accurate, up-to-date or fit for any purpose; and (b) neither Euroz Hartleys Limited, or its representatives, is in any way liable to you (including for negligence) in respect of any reliance upon such information or advice. It is important that your personal circumstances are taken into account before making any financial decision and we recommend you seek detailed and specific advice from your adviser before acting on any information or advice in this publication. Any taxation position described in this publication is general and should only be used as a guide. It does not constitute tax advice and is based on current laws and our interpretation. You should consult a registered tax agent for specific tax advice on your circumstances. For further information on any issue discussed in this publication, or on any financial matter, please contact your adviser.