

IT 2272 - Income tax : eligible termination payments and superannuation pensions - determination of undeducted contributions and undeducted purchase price

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TAXATION RULING NO. IT 2272

INCOME TAX : ELIGIBLE TERMINATION PAYMENTS AND
SUPERANNUATION PENSIONS - DETERMINATION OF UNDEDUCTED
CONTRIBUTIONS AND UNDEDUCTED PURCHASE PRICE

F.O.I. EMBARGO: May be released

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F.O.I. INDEX DETAIL

| REFERENCE NO: | SUBJECT REFS: | LEGISLAT. REFS: |
|---------------|--|-----------------|
| I 1076030 | ELIGIBLE TERMINATION PAYMENTS AND SUPERANNUATION PENSIONS UNDEDUCTED CONTRIBUTIONS UNDEDUCTED PURCHASE PRICE | 27A 27H |

OTHER RULINGS ON TOPIC IT 2157 IT 2168 IT 2255 IT 2256

PREAMBLE

A number of superannuation funds provide retirement benefits in the form of a pension and an additional, separately determined, lump sum benefit (not being a payment in partial commutation of the pension). In relation to one such fund, consideration was recently given to the question of allocating members' contributions between those referable to the superannuation pension and those referable to the lump sum benefit.

2. Sub-paragraph (a)(ii) of the definition of "purchase price", in relation to a superannuation pension, in sub-section 27A(1) of the Income Tax Assessment Act 1936 (the Act) provides for the allocation of a person's superannuation contributions where they are made to obtain superannuation benefits consisting of both a pension and a lump sum. That is relevant for the purposes of identifying the undeducted purchase price in relation to the pension and undeducted contributions in relation to the lump sum.

3. In respect of contributions made to obtain a lump sum superannuation benefit, "undeducted contributions" (as defined in sub-section 27A(1) of the Act) means so much of the resultant eligible termination payment that is attributable to contributions made to the superannuation fund after 30 June 1983 in order to obtain that benefit, being contributions in respect of which no deduction is allowable or has been allowed. Where the eligible termination payment represents only part of the superannuation benefits payable, the taxpayer being also entitled to a superannuation pension, the undeducted contributions component of the eligible termination payment is that part of the member's post-June 1983 contributions not determined (upon allocation as mentioned in paragraph 2 above)

to be part of the purchase price of the pension.

FACTS

4. The rules of the particular superannuation fund referred to in paragraph 1 above provide for the payment of a pension (the base pension) together with a lump sum benefit -

- . on ordinary age retirement;
- . on early age retirement;
- . on invalidity retirement;
- . on the death of a contributor;
- . on the death of a pensioner.

However, under the rules of the fund, any person who is entitled to receive a pension and a lump sum may elect, before any payment is made, to convert the whole of the lump sum to additional pension of an amount equal to one-third of the base pension.

RULING

5. The rules of the particular superannuation fund provide a basis for allocating members' contributions between the respective pension and lump sum benefits. Having regard to the fact that the lump sum benefit may be converted to additional pension equal to one-third of the base pension, it was decided that it would be reasonable to attribute three-quarters of a member's contributions to the purchase of the pension and one-quarter to the purchase of the lump sum.

6. For practical purposes, one-quarter of a member's post-June 1983 contributions would be considered to constitute the undeducted contributions component of the lump sum benefit. The remainder of the post-June 1983 contributions, together with three-quarters of the pre-July 1983 contributions in respect of which no deduction or rebate was allowed and which were not rebatable for the purpose of section 159N of the Act, would constitute the undeducted purchase price in relation to the pension.

7. In similar cases where the rules of a superannuation fund provide a valid basis for allocating members' contributions between lump sum and pension benefits, the contributions should be allocated on that basis. For instance, members of a superannuation fund may be required to contribute a specified percentage of salary to obtain pension benefits and a specified percentage of salary to obtain lump sum benefits. In such a case, a member's contributions may be allocated between the undeducted purchase price of the pension and undeducted contributions in relation to the lump sum on the basis of the proportion of contributions required to obtain the separate benefits.

8. Where there is no immediately apparent basis for allocating the contributions made by a person to obtain both a pension and a lump sum, the contributions should be allocated by applying the relevant proportion ascertained in accordance with the following formulae -

- . Purchase of pension - $B / (A + B)$; and

. Purchase of lump sum - $A / (A + B)$,

where -

A is the amount of the lump sum benefit received; and
B is the present value of the pension entitlement at
the time when the lump sum benefit is received.

The determination of the present value of a future pension
entitlement will be the subject of a further ruling.

COMMISSIONER OF TAXATION
9 April 1986

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