



# New transfer balance cap – death benefit income streams

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*If you follow our advice or guidance and it turns out to be incorrect, or you make a mistake because it was misleading, we will take this into account.*

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*This Guidance note contains general information and examples. It may omit details that could be significant in your personal circumstances*

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<b>Table of Contents</b>	<b>Page</b>
Death benefit income streams and the transfer balance cap	2
Credits to your transfer balance account	2
<i>Reversionary death benefit income streams</i>	2
<i>Non-reversionary death benefit income streams</i>	2
What you need to do	3
<i>What you can do before 1 July 2017</i>	3
<i>What you can do from 1 July 2017</i>	4
Examples	4
<i>Reversionary death benefit income streams</i>	4
<i>Non-reversionary death benefit income streams</i>	5

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This information is for people who:

- are receiving a death benefit income stream
- may be receiving a death benefit income stream and are looking to transfer super to the retirement phase.

From 1 July 2017, there is a \$1.6 million cap on the total amount that can be transferred and held in the tax-free retirement phase. This is known as the 'transfer balance cap'. Special rules apply to death benefit income streams.

## **Death benefit income streams and the transfer balance cap**

If you are receiving a death benefit income stream – either by itself or in combination with another super income stream – you will need to ensure you don't exceed the transfer balance cap (\$1.6 million in 2017–18).

If you start to receive a death benefit income stream, a credit will arise in your transfer balance account. The amount of the credit and when it counts towards your transfer balance cap will depend on whether the death benefit income stream is reversionary or non-reversionary:

- reversionary – the income stream reverts to you automatically upon the member's death
- non-reversionary – the trustee has the power to choose between paying you a lump sum or an income stream (or a combination of these).

From 1 July 2017, death benefits can be rolled into another fund. However, the new fund must commence a death benefit income stream or pay the amount out of super as a lump sum (or a combination of these). The death benefit cannot be retained in accumulation phase. Death benefits that are rolled over will not lose their death benefit tax treatment.

Different rules apply to the transfer balance cap for child recipients of a death benefit income stream. For more information, refer to [GN 2017/13](#) *New transfer balance cap – child death benefit recipients*.

## **Credits to your transfer balance account**

The amount of the credit to your transfer balance account and the time when the credit arises in your account depends on:

- when you started receiving the death benefit income stream, and
- whether the death benefit income stream is reversionary or non-reversionary.

## **Reversionary death benefit income streams**

If you are a beneficiary of a reversionary death benefit income stream, you automatically become entitled to the income stream on the death of the original member. The date of death of the original member is when the income stream first becomes payable to you.

### **Before 1 July 2017**

If you become entitled to a reversionary death benefit income stream before 1 July 2017, the credit in your transfer balance account arises on 1 July 2017 or 12 months after the death of the original member – whichever is the later. This means:

- if the member died prior to 1 July 2016, the credit in your transfer balance account arises on 1 July 2017
- if the member died between 1 July 2016 and 30 June 2017, the credit in your transfer balance account arises 12 months after the date of the member's death.

In both cases, the amount of the credit is equal to the value of the income stream at the end of 30 June 2017.

### **On or after 1 July 2017**

If you become entitled to a reversionary death benefit income stream on or after 1 July 2017, the credit in your transfer balance account arises 12 months after the date of the member's death. The amount of the credit is equal to the value of the income stream as at the date of the member's death.

### **Non-reversionary death benefit income streams**

If you are a beneficiary of a non-reversionary death benefit income stream, you are not automatically entitled to the income stream on the death of the original member. You become entitled when you start being paid the death benefit income stream.

The value of non-reversionary death benefit income streams may also include any:

- investment earnings that accrued to the deceased member's interest between the date of death and the date you become entitled to the income stream
- other amounts the super provider has decided to pay as a death benefit income stream.

### **Before 1 July 2017**

If you are entitled to a non-reversionary death benefit income stream before 1 July 2017, the credit in your transfer balance account arises on 1 July 2017. The amount of the credit is equal to the value of your income stream at the end of 30 June 2017.

### **On or after 1 July 2017**

If you become entitled to a non-reversionary death benefit income stream on or after 1 July 2017, the credit arises on the day you become entitled to the income stream. The amount of the credit is the value of the income stream on that day.

### **Defined benefits**

Some defined benefit income streams are treated differently for transfer balance cap purposes. This includes death benefit income streams that are also defined benefit income streams.

Upon the death of a member who is receiving an income stream from a defined benefit fund, the income stream may automatically revert to a death benefit income stream. The death benefit income stream may also be a percentage of the member's original income stream (a reversionary defined benefit interest).

For more information, refer to [GN 2017/4](#) *New transfer balance cap – defined benefits*.

### **What you need to do**

#### **What you need to do before 1 July 2017**

<b>Situation</b>	<b>Action</b>
If you are already (prior to 1 July 2017) receiving one or more death benefit income streams	Your transfer balance account begins on 1 July 2017. You need to ensure you are below the cap and will not subsequently exceed it (by transferring more into retirement phase). Check with your super fund(s) whether the total value of your

	<p>retirement phase interest(s), including any death benefit income stream, is likely to be more than \$1.6 million on 1 July 2017.</p> <p>If you only have a death benefit income stream, you can reduce any excess by removing ('commuting') it from the death benefit income stream as a lump sum.</p> <p>Alternatively, if you have other account-based income streams, you can commute the excess from those income streams.</p>
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### What you need to do after 1 July 2017

Situation	Action
If you become entitled to one or more death benefit income streams on or after 1 July 2017	<p>If the total value of your retirement phase interests exceeds the transfer balance cap and you only have a death benefit income stream, you can commute the excess as a lump sum.</p> <p>Any commuted amount will need to be cashed out as a lump sum and paid to you, rather than being kept in an accumulation account.</p> <p>Alternatively, if you have other account-based income streams, you can commute the excess from those income streams, by:</p> <ul style="list-style-type: none"> <li>■ transferring it back into accumulation phase, or</li> <li>■ withdrawing it from the super system.</li> </ul>

## Examples

### Reversionary death benefit income streams

Main points	Example
<ul style="list-style-type: none"> <li>■ Both Jack and Jill commenced super income streams before 1 July 2017</li> <li>■ Jack's super income stream is reversionary to Jill</li> <li>■ Jack died more than 12 months before 1 July 2017</li> </ul>	<p>Jack had a reversionary super income stream valued at \$1 million at the time of his death on 1 September 2015. Upon his death, the super income stream reverted to his sister who was in an interdependency relationship with him. Jill had commenced her own account-based income stream on 1 January 2015, valued at \$1.7 million.</p> <p>At the end of 30 June 2017:</p> <ul style="list-style-type: none"> <li>■ the value of Jack's reversionary death benefit income stream is \$800,000</li> <li>■ the value of Jill's account-based income stream has reduced to \$1.6 million.</li> </ul> <p>Jill has to take action to make sure she does not exceed the transfer balance cap.</p> <p>Jill partially commutes \$800,000 of her account-based income stream on 1 July 2017, retaining it in the accumulation phase, and continues receiving the reversionary death benefit income stream valued at \$800,000. Jill still has her original account-based income stream (now with a reduced value) in the retirement phase, and has \$800,000 in accumulation phase.</p> <p>On 1 July 2017, Jill starts to have a transfer balance account and a transfer balance credit of \$800,000 arises for the reversionary death benefit income stream. A transfer balance credit also arises for Jill's account-based income stream of</p>

	<p>\$1.6 million.</p> <p>A transfer debit also arises on that day for the partial commutation of \$800,000, bringing Jill's transfer balance down to \$1.6 million.</p>
<ul style="list-style-type: none"> <li>■ Larissa commenced a super income stream before 1 July 2017</li> <li>■ Brad has accumulation interests only</li> <li>■ Larissa's super income stream is reversionary to Brad</li> <li>■ Larissa died less than 12 months before 1 July 2017</li> </ul>	<p>Larissa commenced a super income stream on 1 October 2000. Larissa died on 1 January 2017. Larissa's super income stream automatically reverts to her spouse Brad upon her death.</p> <p>At the end of 30 June 2017, the value of the reversionary death benefit income stream is \$1 million.</p> <p>On 1 January 2018, Brad starts to have a transfer balance account and a transfer balance credit of \$1 million arises. The credit occurs 12 months from the day that the reversionary death benefit income stream first became payable to Brad.</p> <p>The transfer balance credit is equal to the value of the reversionary income stream at the end of 30 June 2017 (\$1 million) and not the value when the credit arises (1 January 2018).</p>
<ul style="list-style-type: none"> <li>■ Both Ivan and Sasha commenced super income streams (of \$1.2 million each) after 1 July 2017</li> <li>■ Ivan's super income stream is reversionary to Sasha</li> </ul>	<p>On 15 April 2018, Ivan dies. Upon Ivan's death, his super income stream reverts automatically to Sasha.</p> <p>The value of the super death benefit at this time is \$1.1 million. Sasha's transfer balance account will be credited with \$1.1 million on 15 April 2019. This is 12 months from the day that the reversionary death benefit income stream first became payable.</p> <p>Sasha chooses to partially commute her own super income stream and transfers \$700,000 to her accumulation account on 15 April 2019. This ensures her transfer balance account does not go above \$1.6 million.</p> <p>Alternatively, Sasha could partially commute the reversionary death benefit income stream, but she would have to pay the commuted amount as a lump sum out of the super system.</p>

### Non-reversionary death benefit income streams

Main points	Example
<ul style="list-style-type: none"> <li>■ Terence commenced a super income stream before 1 July 2017</li> <li>■ Terence also had \$350,000 in accumulation interests</li> <li>■ Aurelia has accumulation interests only</li> <li>■ Terence's super income stream is non-reversionary</li> </ul>	<p>Terence commenced a non-reversionary super income stream worth \$1.4 million on 1 October 2000. Terence died on 1 January 2017. At the time of his death, he also had \$350,000 in an accumulation account.</p> <p>Aurelia is Terence's spouse and the only beneficiary. She is paid a non-reversionary death benefit income stream which commenced on 15 January 2017. It is made up of Terence's income stream, valued at \$1 million when he died, and the \$350,000 in his accumulation account.</p> <p>At the end of 30 June 2017, the value of her death benefit income stream has reduced to \$1.3 million.</p> <p>On 1 July 2017, Aurelia starts to have a transfer balance account, and a transfer balance credit arises for the death benefit income stream of \$1.3 million. This means that, on 1 July 2017, Aurelia is under her transfer balance cap of \$1.6 million.</p>

<ul style="list-style-type: none"> <li>■ <i>Both Nathaniel and Malena commenced a super income stream after 1 July 2017</i></li> <li>■ <i>Nathaniel's super income stream is not reversionary</i></li> </ul>	<p><i>Nathaniel commences a non-reversionary super income stream worth \$1.4 million on 1 October 2017. Nathaniel dies on 1 January 2018. At the time of his death, the value of his super income stream is \$1.3 million. Nathaniel has no other super interests.</i></p> <p><i>Malena is Nathaniel's spouse and only beneficiary and is entitled to all of his remaining super interest. During the period between Nathaniel's death and when the death benefit income stream starts being paid to Malena, investment earnings of \$1,000 accrues.</i></p> <p><i>The value of the death benefit income stream, when it commences on 15 June 2018, is \$1,301,000.</i></p> <p><i>On 15 June 2018, Malena starts to have a transfer balance account. A transfer balance credit of \$1,301,000 arises for the death benefit income stream.</i></p> <p><i>Malena can start another super income stream, valued up to \$299,000 without exceeding her transfer balance cap.</i></p>
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## References

ATOlaw topic(s)	Superannuation -- Income tax - individuals (superannuation) -- Other
Legislative references	
Related Rulings/Determinations	<ul style="list-style-type: none"> <li>■ <a href="#">LCR 2016/9</a> <i>Superannuation reform: transfer balance cap</i></li> <li>■ <a href="#">LCR 2016/10</a> <i>Superannuation reform: defined benefit income streams – non-commutable, lifetime pensions and lifetime annuities</i></li> <li>■ <a href="#">LCR 2017/1</a> <i>Superannuation reform: defined benefit income streams – pensions or annuities paid from non-commutable, life expectancy or market-linked products</i></li> <li>■ <a href="#">LCR 2017/3</a> <i>Superannuation reform: Superannuation death benefits and the transfer balance cap</i></li> </ul>
Case references	
Other references	<ul style="list-style-type: none"> <li>■ <a href="#">PCG 2017/6</a> <i>Superannuation reform: commutation of a death benefit income stream before 1 July 2017</i></li> <li>■ <a href="#">GN 2017/1</a> <i>New transfer balance cap for retirement phase accounts</i></li> <li>■ <a href="#">GN 2017/4</a> <i>New transfer balance cap – defined benefits</i></li> </ul>
ATO references	
BSL	SPR

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