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Indexing the Personal Transfer Balance Cap

The General Transfer Balance Cap (GTBC) was introduced from 1 July 2017 and is a cap on the how much can be transferred to a retirement phase pension for a member. The cap ultimately restricts the entitlement a fund has to receive a tax exemption on retirement phase earnings. On face value the GTBC concept is relatively straight forward.

Each individual will have their own personal transfer balance cap (PTBC) which will initially align with the GTBC in the year they commence a retirement phase pension. Based on how much an individual commences a pension for will determine how their PTBC is indexed.

With an initial GTBC of $1.6 million, individuals who commenced a retirement phase pension prior to the first indexation date will have had an initial PTBC of $1.6 million. With indexation occurring three times since the measure was introduced, the GTBC now sits at $2 million, and this fact sheet will explain how it works.

What is the difference between the GTBC and the PTBC?

Unlike the GTBC, once indexation occurs, there is no single PTBC that applies to everyone, as each member can potentially have their own PTBC depending on their situation.

As indicated above, the reason they can differ is an individual's PTBC will depend on when they first started their retirement-phase income stream. The PTBC is first determined as being equal to the GTBC in the year that you first start to have a Transfer Balance Account (TBA) and receive a retirement phase pension.

How will indexation affect your Personal Transfer Balance Cap (PTBC)?

The amount of indexation available to an individual is calculated proportionately based on their available cap space. When the cap is met or exceeded, there is no entitlement to any indexation. Where the cap isn't met proportionate indexation is available, this is where it becomes more complex. Once the GTBC became $2 million, from 1 July 2025, an individual can have a PTBC anywhere between $1.6 million and $2 million.

The history of indexation is as follows:

Date	GTBC	Indexation
01-Jul-17	$1,600,000	
01-Jul-21	$1,700,000	$100,000
01-Jul-23	$1,900,000	$200,000
01-Jul-25	$2,000,000	$100,000

If a member commences a retirement phase income stream for the first time after 1 July 2025, their PTBC will be $2 million.

If a member commenced a retirement phase pension before indexation occurred on 1 July 2023, the PTBC will be:

- $1.6m if at anytime between 1 July 2017 and 30 June 2021, the balance of the TBA was $1.6 million or more.
- Between $1.6 million and $1.7 million for all other cases, based on the highest balance in the TBA.

From 1 July 2023 to 30 June 2025, PTBCs will range from $1.6 to $1.9 million.

From 1 July 2025, PTBCs will range from $1.6 to $2 million.

Where the full cap has not been utilised, the TBA is used to calculate the proportional increase and thus determining the new PTBC that applies to the individual's affairs. The ATO's online services for individuals, will show a member's TBA balances and whether their PTBC is proportionately indexed.

NOTE: If a reversionary pensioner commences to receive a pension during the 2024/25 financial year but has no other retirement phase pensions, their highest TBA value will be nil ($0) at 30 June 2025 and they will be entitled to full indexation of $100,000 resulting in their PTBC being $2 million.

How to calculate the proportionate increase in the PTBC?

The proportionally indexed transfer balance cap is calculated by the following process in section 294-40 of the Income Tax Assessment Act 1997:

- Determining the highest ever balance in the TBA
- Using the highest ever balance to calculate the proportion of the cap used, as a percentage, (rounded down to the nearest whole number) and then subtracting from 1 to determine the 'unused cap percentage' of the TBA
- Multiplying the unused cap percentage by the indexation increase ($100,000 for 1 July 2021 indexation, $200,000 for 1 July 2023 indexation & $100,000 for 1 July 2025 indexation)

In very simple terms, if someone started a pension in 2024/25 with $850,000 then they have a personal cap of $1.9 million with an unused proportion of 56% meaning when the GTBC was indexed by $100,000 they got an extra $56,000 added to their personal cap. The table below gives a range of examples:

Pension Commencement	Proportion Used	Rounded Down	Unused Proportion	Indexed Value
$1,900,000	100.00%	100.00%	0.00%	-
$1,600,000	84.21%	84.00%	16.00%	$16,000.00
$1,400,000	73.68%	73.00%	27.00%	$27,000.00
$1,200,000	63.16%	63.00%	37.00%	$37,000.00
$1,000,000	52.63%	52.00%	48.00%	$48,000.00
$850,000	44.74%	44.00%	56.00%	$56,000.00
$500,000	26.32%	26.00%	74.00%	$74,000.00

As shown in the table above, there is very little purpose in trying to manipulate the caps by short-changing the pension commencement by a few dollars as it won't amount to any significant value when indexation occurs.

Example 1

An individual commences their first retirement phase pension on 1st February 2025 for $1.1 million. This represents the highest ever balance of the TBA as no further transactions have occurred.

- The unused cap percentage is 1,100,000 / 1,900,000 = 57.89 rounded to 57, 1 - 57 = 43%
- The PTBC will be indexed by 43% x $100,000 = $43,000
- PTBC after indexation = $1.9 million + $43,000 = $1,943,000

It is also important to note that in the above example if there had been a commutation from the pension it would have been ignored and the highest ever balance of the TBA would still be used to calculate the proportionate indexation increase to the PTBC. We will look at another example to further reiterate the importance of the 'highest ever TBA balance'.

Example 2

An individual commences their first retirement phase pension on 1 July 2024 for $1.9 million. They then take a partial commutation of $800,000 on 30 April 2025.

The transfer balance account is currently looking like this:

Event	Credit	Debit	Balance
1/7/2024 Pension Commencement	$1,900,000		$1,900,000
30/4/2025 Pension Commutation		$800,000	$1,100,000

What happens when indexation came in on 1 July 2025?

- Indexation of the GTBC occurred and brought the GTBC cap to $2 million
- PTBC indexation is nil
- PTBC stays at $1.9 million
- Available cap space is $800,000

In this example there is no indexation available to the PTBC as they have already commenced a pension using 100% of their cap at that time, they have no future entitlement to indexation. They are entitled to commence a further pension to bring their TBA up to their cap, but it won't be indexed.

What else will indexation of the GTBC have an impact on?

The increase to the GTBC will also have a significant impact on the following as they are all tied to the value of the GTBC:

- Making non-concessional contributions
- Ability to use the bring forward provisions for non-concessional contributions
- Eligibility for the co-contribution
- Eligibility for the tax offset for spouse contributions
- The defined benefit income cap (indexed to $125,000 from 1 July 2025)

Concessional and non-concessional contribution caps are also subject to indexation, although they are indexed based on AWOTE figures not CPI. Indexation of the caps will have relevance to the annual bring-forward amount ultimately impacting how much total superannuation balance an individual can have to use these provisions.

In conclusion

The catch to the PTBC will be to ensure accurate records are available with regards to pension commencements so the highest TBA balance can be determined and indexation applied appropriately.

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