# Basic Pension Rules

Fact Sheet, July 2019

## This fact sheet explains key terms and rules for Transition to Retirement Income Streams (TRIS) or Account Based Pensions (ABP).

### Current Taxation Rules

Self Managed Super Funds (SMSF) providing income streams (pensions) currently pay no tax on earnings that are generated from the investments that provide those pensions (exception with TRIS from 1 July 2017). For example, an SMSF which is 100% in pension phase is tax free and would also be exempt from capital gains tax, even if those gains were earned over many years including before the pension started.

### Types of Pensions

- **TRIS** – allows a person who has reached their preservation age but is still working either full-time or part-time to access superannuation benefits as an income stream.
- **ABP** – once a person reaches their preservation age, and has satisfied a condition of release, they are able to access their superannuation, as an income stream or lump sum (or both).

### Preservation Age

| For a Person Born | Preservation Age |
|---|---|
| Before 1 July 1960 | 55 |
| 1 July 1960 – 30 June 1961 | 56 |
| 1 July 1961 – 30 June 1962 | 57 |
| 1 July 1962 – 30 June 1963 | 58 |
| 1 July 1963 – 30 June 1964 | 59 |
| After 30 June 1964 | 60 |

### Conditions of Release

Superannuation benefits must be retained in the SMSF until the member satisfies one of the following conditions:

- Retirement
- Death
- Terminal medical condition
- Permanent incapacity
- Attaining age 65
- Attaining preservation age (TRIS option only)

### Definition of Retirement

Retirement taken to have occurred when:

- If between preservation age and 60 years old – an arrangement under which the member was gainfully employed has ended, and the member intends never to be gainfully employed either fulltime (30 hours per week) or part time (10 hours per week).

  NOTE: To evidence this, the member may be required to sign a statutory declaration, showing they have satisfied these conditions.

- If over 60 years old – an arrangement under which the member was gainfully employed has ended.

### Minimum Pension

A minimum withdrawal from the SMSF is required each year. Calculated based on the member's account balance at previous year's 30 June. To calculate the minimum pension required for 2020, multiply member balance as at 30 June 2020 (per member statements) by the relevant percentage in table below.

| Age at 1 July | Minimum Percentage |
|---|---|
| Under 65 | 4% |
| 65 - 74 | 5% |
| 75 - 79 | 6% |
| 80 - 84 | 7% |
| 85 - 89 | 9% |
| 90 - 94 | 11% |
| Over 95 | 14% |

NOTE: If the member does not withdraw their minimum pension by 30 June 2020, the Fund may lose its tax-free status. Members should ensure they withdraw slightly more than their minimum amount to avoid this.

**TRIS Maximum Withdrawal**

The income payments from a TRIS pension are limited to 10% of the member's account balance at 30 June of previous financial year (i.e. withdrawals during 2020 financial year cannot exceed 10% of member balance at 30 June 2019). Again, refer to member statements sent out with 2019 work.

We recommend that you check all withdrawals for the financial year to date also, and ensure this limit is not breached.

**ABP Maximum Withdrawal**

A member is able to access their full account balance.

**PAYG Withholding**

If the member is below the age of 60, PAYG withholding will be required on the taxable component of the pension payment made by the Fund. If this applies:

+ The Fund must be registered with the ATO for PAYG withholding from the date the pension starts.
+ The Fund will then be required to lodge Installment Activity Statements (IAS) on a quarterly basis.
+ For detailed withholding calculation, refer to the Australian Taxation Office website: https://www.ato.gov.au/Rates/Tax-tables/

**Effect on Member's Income Tax Return**

If the member is below age 60, the taxable component of the pension paid will be included in their assessable income for that financial year.

+ Member below preservation age – no tax offset
+ Member between preservation age and 60 years – eligible for 15% tax offset
+ PAYG withholding paid by the Fund will be a tax credit also.

**Changes From 1 July 2017**

It is important to note that some aspects of ABPs and TRISs from 1 July 2017 have changed.

The main changes are:

+ **Account based pension** – The government has limited the amount that a member can have to fund an ABP under the new Transfer Balance Cap (TBC) measure. The maximum amount is $1.6 million per member, with the balance remained or needing to be transferred into accumulation.

+ **Transition to retirement income stream (TRIS)** – TRIS will still remain, but the earnings supporting a TRIS will now be taxed at the superannuation fund rate (15%), rather than being tax free.

NOTE: Any new pensions or commutations commenced after 1 July 2017 will need to report to the ATO under the new Transfer Balance Account Report (TBAR) reporting regime.

It is important that you discuss your circumstances with your Accru advisor to understand how these changes may impact on your circumstances.


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