EUROZ HARTLEYS

Downsizer Contributions

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Back in 2018 the government introduced the 'Downsizer Contribution' to enable home owners to contribute up to $300,000 into superannuation following the sale of their residence. This was originally subject to a minimum eligibility age of 65, however over time this condition has been reduced to age 55. Accordingly, given the opportunity available, according to recent statistics collected by the ATO, approximately $20 billion has now been contributed under these provisions over the previous 6 completed financial years.

What is a Downsizer Super Contribution?

As we know, superannuation is a tax effective structure to hold retirement assets. A downsizer contribution is a way to boost funds in superannuation through the proceeds of a home sale. It is a form of personal super contribution, but doesn't count towards the ordinary non-concessional contribution caps. This means is not taxed when contributed into super.

A downsizer contribution amount is the lower of:

- $300,000 per individual, or
- The value of the proceeds from the sale of an eligible property.

The opportunity may be eligible if you are over age 55 (tested at the time of the contribution) and perform a contribution within 90 days of settlement. An individual may make more than one super contribution, but the total must not exceed the allowable maximum.

There is no accompanying requirement to purchase a new dwelling. Individuals can only make downsizing contributions linked the sale of one home. The dwelling cannot be a caravan, houseboat or other mobile home.

The property must have been held by you or your spouse for 10 years or more before the sale. The property being sold needs to be considered a main residence for all or part of the ownership period and must be eligible for either a part or full main residence capital gains tax (CGT) exemption.

An approved form electing the contribution as a 'downsizer' must be lodged with the superannuation fund or provider.

Are There Any Cons?

There are various things to consider as the sale of a home can impact other financial aspects.

Benefits in superannuation are subject to rules around conditions of release. Adding money into super may not be the ideal option if this is immediately locked away for a certain period. This said, individuals over age 65 are afforded greater flexibility (i.e. no requirement to cease or wind down employment, retain access to withdrawals from super).

As a home is generally exempt from the Centrelink assets test, downsizer contributions can therefore impact eligibility as they not exempt from the Age Pension means testing.

Lastly, the contribution amount cannot be claimed as a personal tax deduction.

Taking Advantage of the Downsizer Contribution

Interestingly the downsizer contribution is linked to the sale of a property, not the purchase of a new property. This can mean a more expensive home may be purchased as part of the process. In addition, funding of the contribution does not need to directly stem from the proceeds of the sale of the home.

Downsizer contributions can be made at any age from 55, capturing individuals who are not only moving into retirement, but also well into retirement. There is no work test to meet and no upper age limit. Recent data put together by the ATO indicate that over the previous 6 completed financial years, approximately $3 billion has been contributed by individuals over age 80.

Data also shows that the uptake has been greater for females, accounting for approximately 55% of the contribution amounts since July 2018.

Conclusion

The sale of a qualifying home provides the opportunity to move capital into superannuation – a concessionally taxed environment. Over recent years, billions of dollars have been channelled into retirement savings vehicles using this popular measure.

To consider these rules with regard to your personal circumstances, please reach out to your adviser if you'd like to discuss further.

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