

Downsizing your home?

What is a downsizer contribution?

If you are 65 years old or older and meet the eligibility requirements, you may be able to make a downsizer contribution into your superannuation of up to \$300,000 from the proceeds of selling your home.

This provides eligible older Australians an opportunity to contribute the sale proceeds of a former home into the tax effective environment of super where earnings are taxed at a rate of up to 15%.

A downsizer contribution is not a non-concessional contribution and will not count towards any of your contribution caps. A downsizer contribution can still be made even if you have more than \$1.7 million inside the superannuation system. When making the downsizer contribution you are also not required to satisfy the work test.

General eligibility

Voluntary contributions made after 1 July 2017 count towards the scheme. These include:

- Concessional contributions including salary sacrifice amounts or contributions for which a tax deduction has been claimed, and
- Non-concessional contributions that are made using after tax savings or amounts where a tax deduction has not been claimed.

How much can I release?

To be eligible to make a downsizer contribution all of the following must be satisfied:

- you are aged 65 or over at the time the contribution is made (note there is no upper age limit).
- the contribution is from the proceeds of the sale of a single eligible property in Australia where the contract of sale was exchanged on or after 1 July 2018.
- the property was owned by you or your spouse for 10 years or more prior to the sale – the ownership period is generally calculated from the date of settlement of purchase to the date of settlement of

sale. For couples, only one member needs to satisfy the 10 year ownership requirements to allow both to make a downsizer contribution.

- the home is in Australia and is not a caravan, houseboat or other mobile home.
- the proceeds (capital gain or loss) from the sale of the home are either fully exempt or partially exempt from capital gains tax (CGT) under the main residence exemption, or would be entitled to such an exemption if the home was purchased prior to 20 September 1985.
- the contribution is made within 90 days of settlement. An application can be made to the ATO to have this timeframe extended where a delay has been caused by factors outside of your control.
- when making the contribution you must provide your superannuation fund with the ATO's Downsizer contribution into super form.
- you have not previously made a downsizer contribution to your super from the sale of another home.
- you do not claim a tax deduction for this contribution. Despite the namesake, you are not required to actually downsize to a smaller or cheaper home. In fact, there's no legal requirement for you to purchase another residence after making this type of contribution.

Maximum downsizer contributions amount

The maximum downsizer contribution that an individual can make is the lesser of:

- \$300,000 or

- proceeds received on the sale of one eligible property.

Where members of a couple wish to make downsizer contributions in respect of the same property, the total downsizer contributions made must not exceed the lesser of \$600,000 or the total sale proceeds.

Members of a couple - 10 year ownership period

For couples, only one member needs to satisfy the 10 year ownership requirements to allow both to make downsizer contribution. This may arise when the property is only held in one person's name, as long as the spouse that's not the owner satisfies all the other criteria, a downsizer contribution can be made.

The 10 year ownership period test also has provisions to allow for changes in ownership between spouses to account for circumstances such as the death of a spouse and relationship breakdown. If your spouse who held an ownership interest dies, you can count the period of ownership of your deceased spouse, including the period the dwelling is held by the trustee of the deceased estate, towards the 10-year ownership test. This may also arise in the event of relationship breakdown.

Other important things

Your downsizer contribution will not affect your total superannuation balance until it is re-calculated to include all your contributions, including your downsizer contribution, on 30 June at the end of the financial year.

If you or your spouse is in receipt of a Centrelink means tested pension or allowance, it is important to note that the downsizer contribution is an assessable asset for Centrelink purposes and the contributed amount is subject to deeming under the income test, this is regardless whether you retain it in the accumulation phase or use the

contribution to commence an account based pension. This may potentially affect your Centrelink entitlements.

In Budget 2021-22, the Government announced an intention to lower the downsizer contribution age from 65 to 60. This change is expected to start from 1 July 2022.

Why having a retirement plan is important

It is crucial to develop a financial plan in preparation for and during retirement to get an understanding of where you are at and what steps need to be taken to put you in a better position to meeting YOUR retirement goals.

We are living longer and will spend nearly as many years in retirement as in the workforce – this requires a clear financial plan that is regularly reviewed and managed to navigate any changes in your lifestyle and give you peace of mind.

The actions are required in order for you to achieve your best retirement possible come down to factors such as whether you own your home, the value of your super and other investments, the return you earn on those investments, income from other sources and your spending patterns.

The sooner you start your planning journey, the more likely you are to achieve your best retirement possible.

If you want some help in the retirement planning process, do not hesitate to contact our office for a free initial consultation to discuss your situation.

Important information

This information has been produced by Wade Britnell, Kite Financial Services Pty Ltd, Authorised Representatives of Australian Unity Personal Financial Services Limited (ABN 26 098 725 145), AFS Licence no. 234459. Its contents are current to the date of publication only, and whilst all care has been taken in its preparation, Wade Britnell and Kite Financial Services Pty Ltd accepts no liability for errors or omissions. This article is general in nature and has been prepared without taking into account the objectives or circumstances of any particular individual or entity. It cannot be relied upon as a substitute for personal financial, taxation, or legal advice.
Published: February 2022.

The logo for Kite Financial Services, featuring the word "Kite" in a stylized, cursive font.

FINANCIAL SERVICES

P: 1300 695 830

E: wade.britnell@kitefs.com.au

www.kitefs.com.au

A: 12 - 16 Parker St, Williamstown, VIC 3016