Case Study

Downsizers Contributions

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Downsizers Contributions

Effective from 1 July 2018, if you are aged 65 or over, and you sell your principal home, you could be eligible to make a **downsizer contribution** of up to $300,000 ($600,000 combined for a couple) into your superannuation account.

The key benefit of the downsizer contribution is the ability to invest the sale proceeds of a primary residence into the concessionally taxed super environment when over age 65 without having to meet the work test or contribution caps. Given the tax advantages, the ATO is responsible for administering the downsizer contribution scheme. If you are eligible to make a downsizer contribution, you will need to complete the downsizer contribution form provided by the ATO, and give this to your superannuation fund when making, or before making, the contribution.

Eligibility:

For a contribution to qualify as a downsizer contribution:

- Contracts for the sale of the main residence must be exchanged on or after 1 July 2018.
- You must be aged 65 or over at the time of the contribution, but no other age or work tests apply.
- The contribution must be sourced from the proceeds of the sale of one qualifying main residence.
- Either you, your spouse or your former spouse (or a combination) must have had an ownership interest in the main residence for at least 10 years immediately before the sale.
- The contribution must be made within 90 days of the change of ownership of the main residence.
- Notification must be provided to the super fund trustee on the approved ATO form of the choice to treat the contribution as a downsizer contribution at the time the contribution is made.

Key features:

- The downsizer contribution must relate to a dwelling located in Australia and does not include proceeds following the sale of a caravan, houseboat or another form of mobile home. This includes up to two hectares of adjacent land on the same title.
- The downsizer contribution can only be used once, in relation to one dwelling. That is, you can't reaccess it for the sale of a second home.
- If you sell your home, are eligible, and you choose to make a downsizer contribution, there is no requirement for you to purchase another home.
- The $300,000 can be made up of multiple contributions, over the 90 day period.
- The downsizer contribution funds are an assessable asset under both Centrelink's and DVA's assets and income tests.
- The dwelling will qualify as a 'main residence' for downsizer contributions if any capital gain or loss from the sale of the home is:
  - eligible for a full or partial CGT main residence exemption or
  - would qualify for a full or partial CGT main residence exemption, except for the fact that it was acquired before 20 September 1985.
- Proceeds from the sale of an investment property that is not eligible for any main residence CGT exemptions will not be eligible.

Other points of note:

- **Downsizer contributions are not tax deductible:** you are not able to claim a tax deduction on any contribution they have elected to be a downsizer contribution.
- **Downsizer contributions cap:** downsizer contributions are limited to the lesser of:
  - $300,000 per person, less any downsizer contributions already made to that person's superannuation fund from the sale of the same main residence, or
  - capital proceeds received by a person (and their spouse, if relevant) from the sale of a main residence, less any downsizer contributions already made in respect of that person and their spouse (if relevant) from the sale of the same main residence.
- **Total Superannuation Balance:** downsizer contributions are not impacted by your total superannuation balance as they are not classified as non-concessional contributions. Therefore, if your total superannuation balance exceeds $1.6 million, you are still able to make downsizer contribution. However, once the downsizer contribution has been made, it may impact the ability to make future non-concessional contributions as it increases the future total superannuation balance.

Case Studies/Examples

Case Study 1:

David and Rhonda are spouses who are both age 67. They sell their main residence which was owned by David for $1.2 million. David and Rhonda may each make one or more downsizer contributions (to one or more of their own super funds) totalling no more than $300,000 each. David and Rhonda then purchase a beachside cottage in Rhonda's name which they live in as their main residence. Upon the sale of this beachside cottage several years later, neither David nor Rhonda could make a downsizer contribution as they have both made downsizer contributions in the past.

Case Study 2:

Margaret (67) and Bob (63) are married and own their main residence in Bob's name only. They sell their home, and Margaret is able to make a downsizer contribution up to $300,000 given she is over 65 and her spouse is the owner of the dwelling (assuming all other criteria are met). Downsizer contributions could be made in respect of an individual if they or their spouse held an ownership interest in the dwelling, whether that ownership interest was held solely, joint tenants or as tenants in common.

Case Study 3:

Ron and Judy are married and both aged 76. They wish to sell their home and purchase a new home for a similar value. Despite not extracting equity from the property exchange Ron and Judy are still eligible to contribute other funds as a downsizer contribution, up to the amount of the sale proceeds or $300,000 (whichever is lesser). There is no legislative requirement to purchase a home of a lower amount or indeed to purchase a new home at all. For example, they could withdraw funds from superannuation and recontribute those funds as a downsizer contribution (assuming all other eligibility criteria are met). This strategy is similar to a re-contribution strategy and may have estate planning benefits due to the reduction in the taxable component.

Case Study 4:

Sophie (65) has a holiday home that she wishes to sell. Although the property is not her current main residence, it has been the main residence for 10 years in the past. The qualification criteria to make a downsizer contribution requires the property being disposed of to qualify for a full or partial CGT main residence exemption. There is no requirement for the property to be considered Sophie's main residence at the time of disposal.

Whether a dwelling qualifies as a main residence depends on the facts and circumstances of each case. The ATO will generally take the following factors into consideration:

- the length of time they have lived there
- whether their family lives there
- whether their personal belongings are situated there
- where their mail is being delivered
- their address on the electoral roll
- the connection of services (e.g. phone, gas or electricity) to the dwelling
- their intention to occupy the home.

Therefore, if the holiday home was Sophie's main residence at some point during the ownership period and qualifies for at least a partial CGT main residence exemption, it could be eligible under the downsizer contribution qualification criteria.

Summary

Before considering the downsizer contribution strategy, it is imperative to consider all of the options and the subsequent outcomes with your financial adviser so you can make the most out of the sale proceeds. Careful consideration needs to be given to the potential tax, social security and aged care implications before taking advantage of the strategy.

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