Case Study

Upsize Your Super With Downsizer Contributions

GFM
Wealth Advisory

PROFESSIONAL PRACTICE
FINANCIAL PLANNING ASSOCIATION of AUSTRALIA

Australian Financial Services Licence No. 229401

190 Through Road
Camberwell VIC 3124
T: (03) 9809 1221 F: (03) 9809 2055
enquiry@gfmwealth.com.au
www.gfmwealth.com.au
ABN 69 006 679 394

SMSF Specialists
Investment Management
Financial Planning
Accounting

Upsize Your Super With Downsizer Contributions

One of the most critical pieces of legislation introduced towards the end of last year was the Downsizer Contribution Bill.

Previously, a person who was over the age of 65 years had to meet various conditions before they could make superannuation contributions. Most who were over this age may have surplus funds when they sell their principal place of residence and downsize. If an individual was not working, this money could not be contributed to superannuation.

Following the introduction of this legislation, an eligible person can now contribute up to $300,000, into superannuation regardless of their age, work status or total superannuation balance. If you are a member of a couple, this means up to $600,000 can be contributed to superannuation.

The contribution will be classified as a downsizer contribution. It will not be considered a concessional (pre-tax) or non-concessional (after-tax) contribution.

No more than $300,000 can be contributed as **a downsizer contribution**, and the contribution amount cannot exceed the amount received from the sale of the dwelling.

While this legislation makes it a little easier for people to get the money into superannuation, some conditions need to be met:

- Downsizer contributions can only be made where the contract for sale is entered into on or after July 1, 2018. If you sign the contract before this date, you do not qualify for the downsizer contribution.
- The contributions must be made within 90 days of settlement (which is when the change in ownership occurs). For example, if the property is sold at auction on the 1st of August, 2018 and settlement occurs 90 days later on the 1st of November 2018. Therefore, the contribution must be made 90 days from the 1st of November 2018 is the 1st of February 2019.

Who can make these contributions?

These contributions also only apply to individuals who meet the following conditions:

- The contributing individual must be 65 years of age or older.
- The proceeds must come from the sale of an interest in a dwelling owned by the contributing individual or their spouse.
- The individual, spouse or ex-spouse must have held the interest in the dwelling, at all times in the ten years immediately before the sale.
- The dwelling must qualify for full or partial CGT principal residence exemption.
- Contributions will still be allowed if someone has a total super balance greater than $1.6m.

Other points of note:

- The downsizer contribution can only be used once, in relation one dwelling. It cannot be used again, following the sale of another residence.
- The $300,000 can be made up of multiple contributions, over the 90 day period.
- The excess sale proceeds from an individual's home will still count toward the Age Pension asset test whether held outside of superannuation or contributed to superannuation under the downsizing cap. Therefore, if you are on an Age Pension or DVA entitlement, careful calculations will need to be done to ascertain any possible impact on your benefits.
- While this amount can be contributed to superannuation without restriction, there is still a limit to the amount you can move into retirement phase under the transfer balance cap of $1.6m.

We have presented a range of case studies below around potential strategies that could be employed to take advantage of these new reforms:

Case Study 1:

Jerry and Elaine are both retired and aged 84 and 82 respectively. They decide to sell their family home for $1.5 million that they have lived in for more than ten years and downsize to a smaller dwelling worth $900,000.

While they previously would both be unable to make any contributions to superannuation based on their age, they can both now make contributions of $300,000 each to superannuation under the downsizing cap.

Case Study 2:

Chandler and Monica are both retired and are aged 75 and 69, respectively. They sell the home they have lived in for more than ten years to downsize, and the net proceeds are $2 million. They purchase a new residence inclusive of costs for $1.7 million, so they have $300,000 left to contribute to super.

Chandler has $1.3m invested in a retirement income stream, and Monica has $1.6m.

While they are both eligible to contribute of $300,000 under the downsizer rules if Monica contributes the funds she will be unable to start a tax-free retirement income stream with the contribution, as she has made full use of her $1.6m transfer balance cap. Conversely, Chandler has room under the $1.6 million transfer balance cap and could use the $300,000 contributed to starting a tax-free retirement income stream.

Case Study 3:

Homer and Marge are both retired and are aged 75 and 69, respectively. They sell the home they have lived in for more than ten years, and the net proceeds are $2 million. They purchase a new principal residence inclusive of costs for $1 million and also plan to buy a holiday house on the coast for $1 million as well. They have acquired the principal place of residence, however, are awaiting a suitable opportunity to buy a holiday house.

Homer has $1.6m invested in a retirement income stream and $300,000 in the accumulation phase, and Marge has $1.3m.

While they are using all of the net sale proceeds from the sale of their home to purchase two properties, they could take advantage of the downsizer contribution rules to even up their member benefits. That is, for Marge to make a downsizer contribution of $300,000, then commence a tax-free income stream. Homer would then make a withdrawal of $300,000 from the accumulation phase, so they then have $3.2m invested tax-free.

The downsizer contribution can also be used as a recontribution strategy past the age of 65. As the name suggests, a re-contribution strategy involves the withdrawal of your superannuation benefits and the contributing of these benefits back into your super fund. The objective of the re-contribution strategy is to maximise the tax-free component of your retirement income stream and/or your super death benefit.

Our very strong advice is that if you are considering selling your principal place of residence and meet the criteria above to make a downsizer contribution, that you contact your adviser.

Australian Financial Services Licence No. 229401

GFM Wealth Advisory