

Merrilee and Victor meet all the eligibility criteria for downsizer

Factsheet

UNDERSTANDING COMMONLY USED SMSF STRATEGIES AND SOLUTIONS

Over 65 and selling the family home? Consider “Downsizer Contributions”

From 1 July 2018, the government allows certain people aged 65 and older, who sell their family home to make extra superannuation contributions. There are some conditions, however, which we address below.

The stated policy aim for this concession is to reduce a barrier for older Australians to move from homes that no longer meet their needs, so more homes can be available for younger Australian families.

One of the major advantages of these so-called “downsizer” contributions is that they aren’t subject to the other limitations on making after-tax contributions to superannuation.

In most other cases, in order to make after-tax (also called “non-concessional”) contributions to super, a member must:

- Be under 65yrs of age; or
- Be between 65 and 74yrs of age and gainfully employed; and
- Have a total super balance of less than \$1.6m.

With downsizer contributions, none of these restrictions matter. So long as your house and your individual circumstances meet the tests, you can

contribute up to \$300,000 from the sale proceeds into super. Additionally, if you have a spouse, your spouse can contribute up to \$300,000 as well.

Importantly, the rules recognise that people don’t always have the family home in both names, so as long as one member of the couple qualifies for the CGT “main residence” exemption on the sale, then both members of the couple can access the concession, even if one does not have an actual ownership interest.

As always, there are some conditions attached and some tips and traps to remember. This factsheet will help you out with the main ones.

The 10-year Rule

In order to qualify, one of either you or your spouse must have owned the property for at least 10 years prior to its sale. You don’t have to have lived in it for the entire time – just some of it.

How does the \$300,000 limit work?

The contribution which you make (or which you and your spouse, combined, make) is limited to the sale value of the house.

So, for example, if the total sale price was \$400,000 that is the total amount which the two of you can contribute.

Do you actually have to downsize?

The answer is, "No". So, for example, if you sell one house for \$700,000 and buy a replacement for \$700,000, but you also have \$200,000 invested outside of super, you can use the sale to contribute that extra \$200,000 under the downsizer rules.

In fact, you don't actually have to buy a replacement home at all.

Which leads to the next point...

Do you have to contribute actual proceeds?

In other words, does some or all of the money actually received from the buyer need to go into super? As seen from the example above, the answer is also, "No".

It can be any amount which you happen to have outside super, up to the lower of the sale price or \$300,000 each.

Can I use it more than once?

No, you cannot. Each person can only ever make a single contribution in respect of a single residence – even if you don't use up your entire limit at that time, so this is an important planning consideration (eg. If you are moving into a holiday house which you already own, you might want to use only one limit for the first residence and save your spouse's limit for a second residence).

Are there Age Pension Impacts?

Yes, there can be. Under the current rules, the family home is exempt from means testing for access to the government-funded Age Pension. On the other hand, superannuation assets will usually be tested.

Therefore, anyone presently receiving the Age Pension and thinking of selling the family home to utilise the downsizer contributions should seek professional advice first.

How long do I have to contribute?

You will have 90 days after the sale of your home settles in which to make the contribution. In very unusual circumstances, the ATO may grant an extension.

Home sold in Sept 2020
Owned for more than 20 years
PPR

How Virtu Can Help

If you want more information of advice on accessing the downsizer contributions, Virtu can assist.

Give us a call today, on (07) 3349 1452.

Note: this Factsheet provides factual information only and does not constitute advice or a recommendation. You should always seek appropriate professional advice before embarking on any major financial decisions.