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Monthly Information Newsletter – Tax & Super

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Downsizer contributions to Super

Did you know you could invest the proceeds of the sale of your family home to your superannuation, depending on your age and circumstances?

What is a downsizer contribution?

From 1 July 2022, if you're aged 60 years or older you may be eligible to make a downsizer contribution of up to $300,000 (or $600,000 for a couple) to your superannuation fund from the proceeds of the sale of your home where specific requirements are met.

Downsizer contributions can be a great way of boosting your superannuation after retirement. As well as the extra capital they introduce, the contributions can also earn investment income that is either tax-free if you commence an income stream with the funds or be taxed at a concessional tax rate of up to 15% whilst in accumulation phase.

Eligibility requirements

1. You must be aged 60 or over from 1 July 2022 (or aged 65 or over if the contribution is made before 30 June 2022).
2. The amount of the contribution is an amount equal to all or part of the sale proceeds (capped at $300,000 per person) of a qualifying main residence, where the contract of sale of the main residence was exchanged on or after 1 July 2018.
3. The home was owned by you or your spouse for 10 years or more prior to the sale. Further, your home must be in Australia and must not be a caravan, houseboat or other mobile home.
4. The proceeds of selling your home are either fully exempt or partially exempt from capital gains tax under the main residence exemption or, if the home was acquired before 20 September 1985, would have been exempt.
5. You make the downsizer contribution within 90 days of receiving the proceeds of sale (i.e., usually settlement date).
6. You complete the 'Downsizer contribution into super form' (NAT 75073) which is available on the ATO website and provide it to your superannuation fund either before or at the time of making the downsizer contribution.
7. You have previously not made a downsizer contribution from the sale of another home.

Provided that the above conditions are met:

- There is no obligation to purchase a new home or to move to a smaller or cheaper home. You simply need to sell your home and meet the above criteria to make a downsizer contribution.
- There is no maximum age limit to make a downsizer contribution.
- The downsizer contribution does not count towards your non-concessional or concessional contributions caps.
- There is no requirement to meet a work test or work test exemption to make a downsizer contribution, and
- Downsizer contributions can be made regardless of the size of your total superannuation balance (TSB). This means a downsizer contribution can still be made even if you have more than $1.7 million in superannuation.

TIP

As part of the federal election campaign, the new Labor government pledged to match the former Coalition government's commitment to lower the downsizer eligibility age to 55. If Labor passes this measure, it would provide greater flexibility for Australians over the age of 55 to sell their home and contribute the proceeds into superannuation.

Other points to consider

While downsizer contributions can be made regardless of what your TSB is, once the downsizer contribution is made to superannuation it forms part of your TSB.

At this point, the downsizer contribution will increase your TSB which may impact your eligibility to:

- Make carry forward concessional contributions
- Make non-concessional contributions
- Receive government co-contributions, and
- Receive a tax offset for spouse contributions.

Similarly, a downsizer contribution will also count towards your transfer balance cap (TBC), which applies when you move your superannuation into retirement phase to commence an income stream.

So if you intend to use your sale proceeds to commence a superannuation income stream in retirement, it's important to note that you have a personal TBC of up to $1.7 million on the total amount that can be transferred from a superannuation account into a tax-free superannuation income stream. You can find out your personal TBC by contacting the ATO or logging into myGov.

Lastly, your superannuation balance is assessed for your eligibility for the government age pension, whereas the value of your family home is an exempt asset. This means you may see a reduction or lose your entitlement to the age pension when you contribute some or all of the sale proceeds to your superannuation.

Seek advice

Although making a downsizer contribution may seem to be straightforward strategy, there are a number of eligibility requirements and nuances that you must be aware of when utilising these rules. If you're thinking about downsizing and contributing to superannuation but want more information, talk to us.