TAX TALKS

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193 | Downsizer Contributions

Downsizer contributions are turning out to be more popular than many thought – including us.

Downsizer Contributions

The downsizer contributions sound straight forward. It gets more tricky when you look at the details. So we asked Daniel Mikhail of Partners Wealth Group in Sydney to walk us through the details.

Here is what we learned. But please listen in as Daniel Mikhail explains all this much better than we ever could.

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Popular

The downsizer contribution scheme turns out to be more popular than expected. From 1 July 2018 to 30 June 2019 – so in its first year – over 5,000 people contributed over $1.2b into super using this scheme. 31% were in NSW, 26% Victoria, 24% in Queensland and the other 19% in the other states and territories, so mirroring population sizes. 55% were women.

Basic Facts

The scheme started on 1 July 2018. So any contracts of sale exchanged on that day or later might qualify.

You can downsize, samesize or upsize. In fact, you don’t even need to buy another property.

You might no longer be able to make ‘normal’ contributions into super due to age, work status or contribution caps. But if you sell your home and meet the 10 conditions to qualify, you still can make downsizer contributions.

There is no maximum age. Your total superannuation balance is irrelevant. And the contributions don’t count towards your non-concessional contribution caps.

The downsizer contributions get your money into accumulation. Whether you can then move them into pension mode depends on your transfer balance account.

You can’t claim a tax deduction for the downsizer contribution, but the contribution goes into the tax-free component. So will never attract tax, even when paid to non-tax dependants as a death benefit.

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There is just one thing you really need to watch out for. Your family home does not affect any pension or DVA asset or income test. But super does. So selling your home and moving some of the funds into super could bust your pension.

Eligibility

You and your spouse (if aged 65 or older) can contribute up to $300,000 each into super if you meet the following 10 conditions:

1 – You or your spouse sell your home and not just land.

2 – The contract of sale is exchanged on or after 1 July 2018;

3 – The home is fully or partially exempt under the main residence CGT exemption. Or it would be exempt if the home was not a pre-CGT asset (acquired before 20 September 1985);

4 – The home is in Australia.

5 – The home is not a caravan, houseboat or other mobile home;

6 – You (or your spouse or former spouse) owned the home (or the land the home is built on) for 10 years or more prior to disposal.

7 – You are 65 years old or older at the time of the downsizer contribution;

8 – You make the downsizer contribution within 90 days of settlement date;

9 – You submit the relevant form to your super fund before or at the time of the contribution. The relevant form is called “Downsizer Contribution Into Super Form”;

10 – This is the only home you make a downsizer contribution for.

Main Residence CGT Exemption

The property must be eligible for at least a partial main residence CGT exemption.

So an investment property that had previously been your main residence as well as your current main residence that had previously been an investment property would both still qualify. As long as the property qualifies for a fraction of the main residence CGT exemption – no matter how small – it fully qualifies for the downsizer contribution.

For the sale of a pre-CGT asset, you can only make a downsizer contribution if you would have been entitled to a whole or partial main residence exemption if the dwelling had been a CGT asset.

Ten-year Ownership Period

The property must have been owned by you, your spouse or former spouse for at least ten years prior to disposal. The ten-year ownership period can include periods when only one member of a couple owned the property.

You could have for example inherited the property from your deceased spouse who had been the sole owner. The time your spouse held the property as well as the time the trustee of the estate held the property would count towards the 10 years of your ownership.

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The ten-year ownership period also includes any time of ownership before a property settlement following a relationship breakdown. This applies even if your former spouse owned the property alone and you then got the property as part of a settlement.

If you knock down and rebuild, the 10-year ownership requirement just applies to the ownership of the land.

Contribution

You must be at least 65 at the time the contribution is made and must make the contribution within 90 days of change of ownership.

You can make a downsizer contribution regardless of your last 30 June TSB. However, once you made the contribution, then that money will be part of your TSB.

A downsizer contribution will not affect your contribution caps for that year, so you could still contribute up to $25,000 concessional plus up to $100,000 non-concessional plus any small business CGT concession contributions.

The downsizer contribution is up to $300,000 per person, but is limited to one property and the actual sales proceeds. You can allocate your downsizer contribution to several super funds.

Couple

Even if only one member of a couple was the property owner, both may be eligible to contribute up to $300,000 each (limited by the actual sale proceeds).

If a couple sell their home under a single contract and are both eligible to make a downsizer contribution, they are free to choose how to apportion the total capital proceeds between them, provided that neither of them contributes greater than $300,000.

If only one member of a couple is eligible, the eligible person can use the total capital proceeds from the sale up to $300,000, even if their portion of the sales proceeds might be lower.

Fund Notification Requirements

When you make a downsizer contribution, you must provide the super fund with a prescribed election form before or with the contribution.

You find the form “Downsizer contribution into superannuation form” on the ATO website under form id “
NAT 75073-06.2018?.

Centrelink

Your principal home is exempt from the Centrelink asset and income tests. But your super isn’t. And cash held in your own name isn’t either. So selling your home can see a reduction in your pension, if you don’t invest the money into a new home.

When you sell your principal home, Centrelink gives you a 12 month exemption from the asset test to give you enough time to buy a new home. This is the case even if you contribute the proceeds to super for that time. However, the income test deeming rules still apply.

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