futuro FINANCIAL SERVICES

FLASH

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Downsize your home, upsize your super!

Over 65? Thinking of selling your home? Since 1st July 2018 you may be eligible to contribute up to $300,000 ($600,000 for a couple) from the proceeds of the sale of your home to your superannuation fund.

This incentive, known as the 'downsizer contribution', is part of a federal government program to improve housing affordability. It offers a further opportunity for some home sellers to benefit from the tax advantages associated with superannuation. On the downside it may adversely affect eligibility for age pension. >

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Rules apply

Of course, it wouldn't be a super contribution without lots of rules, and the main ones are:

- You must be 65 or older when you make the contribution. This could affect decisions on the timing of a sale. For example, Anne (67) and Rod (63) are thinking of downsizing. As only Anne can make a downsizer contribution they may want to delay selling their home until Rod turns 65 so he can also make one.
- You or your spouse must have owned the home for at least 10 years prior to sale, it must be your main residence, and cannot be a caravan, houseboat or mobile home.
- You can only use this concession once. You can't use it with subsequent home sales.
- The contribution is limited to the lesser of $300,000 each or the total proceeds from the sale of the home. In the case of couples, contributions don't need to be evenly split. Take Tom and Stephanie. They sold their house for $500,000. Rather than contribute $250,000 each, Stephanie contributes her $300,000 maximum. Tom's downsizer contribution must then be no more than $200,000.
- The contribution must be made within 90 days of receiving the proceeds, though an extension may be granted in limited cases.

Curiously, given the name of this initiative, you don't need to physically downsize your home. If you have the funds available you could buy a bigger or more expensive abode. In fact, you don't even need to buy a new home at all.

The effect on super

On the superannuation side, you can make a downsizer contribution if your total super balance exceeds $1.6 million. However, the contribution will count towards your transfer balance cap (i.e. the cap on the amount you can use to establish a tax-free superannuation pension). Even so, it may still be advantageous to hold these funds in the concessional (15%) tax environment applicable to the super accumulation phase.

And what about the age pension?

Anyone thinking of downsizing needs to consider the impact on eligibility for age pension. A main residence is exempt from the assets test, but if its sale frees up money – for example through buying a cheaper home or renting – those funds will be assessed under both the income and assets test even if they are used to make a downsizer contribution. This may result in a reduction or loss of age pension.

The extent to which you can benefit from making a downsizer contribution depends very much on your individual situation. And it isn't just a financial issue, lifestyle considerations are also important. Before making a decision it's important to consider all the angles, so talk to your financial adviser about whether a downsizer contribution is right for you.