

KnowHow

Upsize your retirement savings with downsizer contributions

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The downsizer superannuation contribution provides an opportunity for eligible people aged 55 and over to sell their home and make a contribution to superannuation from the proceeds.

You may be eligible to make additional contributions to super of up to \$300,000 (or \$600,000 per couple) from the proceeds of the sale of your home.

What are the possible benefits of making a downsizer contribution?

The benefits of making a downsizer contribution vary depending on individual circumstances but may include:

- increasing your retirement savings
- increasing your savings without the need to satisfy normal eligibility criteria (including [total super balance test](#) and [being under age 75](#))
- the contribution is not assessed against any of your other contribution caps, meaning that you could contribute even more to super
- if the amount remains in the accumulation phase of superannuation, investment earnings are taxed at a maximum of 15% rather than your marginal tax rate (which could be higher, if you invested the proceeds outside super)
- if the amount is used to commence a superannuation income stream, earnings on this amount are taxed at 0% rather than your marginal tax rate (if you invested the proceeds outside super)
- the amount forms part of the tax-free component which is not taxable when you withdraw it, or if paid to a non-tax dependant (such as an adult child) after death.

How does it work?

Downsizer contributions are superannuation contributions that have been sourced from the sale proceeds of your current home, or a property that you sell that you've treated as your main residence at some point since you've owned it.

The maximum downsizer contribution that you can make is the lesser of \$300,000 or the total proceeds received from the sale. As this is an individual limit, this means that for couples, it may be possible to contribute a combined amount of up to \$600,000. However, the total downsizer each person is limited to a maximum of \$300,000, and the total combined downsizer contributions for a couple cannot exceed the total proceeds from the sale.

Multiple contributions can be made, however, the contributions can only be made from the sale proceeds of one eligible dwelling. This means that if you don't fully utilise your \$300,000 downsizer cap, you can't make additional downsizer contributions if you later sell another property which qualifies.

General eligibility

To be eligible to make a downsizer contribution the following must be satisfied:

- You are aged 55 or over at the time the contribution is made
- The contribution is from the proceeds of the sale of a single eligible property in Australia (and is not a houseboat, caravan or mobile home)
- You have owned the property for at least 10 years prior to the sale

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- You claim the capital gains tax (CGT) main residence exemption on the sale of this property (wholly or partly)
- The contribution is made within 90 days of settlement
- You complete the required paperwork to elect to treat the contribution as a downsizer contribution and submit the form to your super fund (either before or when the contribution is made)
- You do not claim a tax deduction for this contribution; and,
- You have not previously made a downsizer contribution in relation to another sale.

Do I need to have lived in the home for the 10 years prior to sale? If I have used it as an investment property for some time, can I still make a downsizer contribution?

Yes, you may still be eligible to make a downsizer contribution. This is because the requirement is that for tax purposes, you treated the home as your main residence for at least part of the time you owned it (and you apply at least a partial main residence exemption on this property for tax purposes when you sell it).

You are required to have owned the property for at least 10 years, which is measured from the original settlement date, to the date that your legal ownership passes to the new owner (settlement date). However, there is no minimum period of time that you need to have lived in the home as your main residence during the ownership period, or that you are living in the home as your main residence at the time you sell it.

If your home was purchased prior to 20 September 1985 (ie a pre-CGT asset), the tests for the main residence exemption are still applied to determine whether or not you would have otherwise been eligible to apply the concession to determine if the dwelling is an eligible residence. If your spouse owned the property being sold, you may qualify to make a downsizer contribution if you meet all other criteria, and if you would have been entitled for a partial or full CGT main residence exemption if you were a legal owner of the property immediately before sale.

Only my spouse's name is on the title. Can I contribute if I don't legally own it?

You may be able to contribute, and not being a legal owner of the property doesn't in itself preclude you if your spouse owns the property when it is sold. Each of you will need to individually meet the eligibility rules to make a downsizer contribution. As you won't be eligible to apply the main residence CGT exemption because you won't personally have a capital gain when the property is sold, the rules require that you *would have* been eligible to apply the main residence exemption at least in part, *if you were* the legal owner at the time the property was sold.

For couples, only one member needs to satisfy the ownership requirements to allow both to make a downsizer contribution. This may arise where the property is only held in one person's name. As long as the non-owner spouse satisfies all the other criteria, a downsizer contribution can be made.

For couples, the ownership test can be satisfied by the total period of time owned by each individual. For example, if the property was solely owned by one member of a couple for over 10 years and it was inherited by the spouse upon their death, the period of ownership of the deceased spouse counts towards the ownership period of the surviving spouse. This may also arise in the event of relationship breakdown.

To make sure you are eligible, it is important you seek personal advice prior to making a contribution to understand how this rule applies to you.

Can I make a downsizer contribution if I gift the home or transfer the title for no payment?

No you can't. Downsizer contributions are limited to actual sale proceeds, meaning that if you gift the property to another person, or transfer it without payment (even if you receive for example, a life interest to live in the home from another person) you cannot make a downsizer contribution.

Can I upsize instead of downsize? What if I don't buy a new property at all?

Although the contribution is called a 'downsizer' contribution, there is no requirement to downsize, or to purchase another property in order to make this contribution. You are still eligible to make a downsizer contribution if you

- buy a more expensive home providing you have access to other funds to make this contribution, or
- decide to rent and not to buy a new property at all.

A time limit applies to make a valid downsize contribution (see below), however, there are no time periods or any other requirements which limits what you can or must do with the sale proceeds.

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Access to these funds

The Government extends tax concessions to superannuation to encourage us to save our retirement. However, there are rules that restrict access to these savings, known as preservation rules. This means that once you've contributed to super, you won't be able to access your funds until a condition of release is met.

If you are 55 to under age 65, conditions of release that you can satisfy include:

- retirement after your preservation age¹ (as defined in the legislation)
- ceasing an employment arrangement after turning age 60, or
- reaching age 65.

This means you need to be comfortable being unable to access this capital until you have met a condition of release. However, once you reach age 65 or are already 65 and over, you can access your savings at any time.

Social security implications

If you sell your home and make a downsizer contribution, that contribution adds to your superannuation savings.

If you are at least Age Pension age (or Service Pension age if applicable), or you commence a superannuation income stream, these savings are assessed when determining your entitlements, and may reduce your social security benefits or entitlements. However, if you are under Age Pension age (or Service Pension age if applicable) and the amount remains in the accumulation phase of superannuation, this is an exempt under both the income and assets tests.

Failing the eligibility criteria

If a downsizer contribution is made and the eligibility criteria is not met, the amount you've contributed is treated as a personal contribution. Generally, a super trustee can accept a personal contribution up to age 75². However, the fund cannot assess your personal contribution based on any other factors, such as your total super balance, other contributions you've made, and your available contribution caps. If a personal contribution can be accepted by the super fund, the amount remains in your super fund and counts towards your non-concessional contributions cap³. If the contribution cannot be accepted, the contribution must be returned to you.

Note: A downsizer contribution may not meet the eligibility requirements and may be identified by the super fund (in limited situations) or by the ATO who advises the super fund.

Next steps

To find out more about the downsizer contribution, how the rules apply to you and some other things you should think about, speak to your financial adviser. You can also visit ato.gov.au for more information.

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¹ Preservation age is 55 for those born before 1 July 1960 and gradually increases to 60 depending on your date of birth

² Personal contributions must be received no later than 28 days after the month you've turned 75.

³ The ATO will determine if the contribution made is within your personal non-concessional contribution cap. If the ATO determines that you have exceeded your cap, additional tax and penalties may apply.