DOWNSIZER CONTRIBUTION – IT DOESN'T GET MUCH BETTER

In the 2017 Federal Budget, the Australian government introduced the downsizer contribution scheme to help individuals boost their superannuation balance without the typical limitations. In this newsletter, we'll explore how the scheme works and key considerations to keep in mind.

What is a downsizer contribution and how does it work?

In a nutshell, the downsizer contribution scheme allows individuals aged 55 and over to make an additional non-concessional (after-tax) contribution of up to $300,000 from the proceeds of selling their home. And despite its name, there's no requirement to purchase another smaller home.

Both partners in a couple aged 55 or older can benefit from the scheme, allowing a combined contribution of up to $600,000. Importantly, even if the home is owned by just one spouse, both partners can take advantage of the downsizer contribution.

A downsizer contribution is a non-concessional contribution, but does not count towards the contribution cap. There is also no upper age limit restriction, and it is not affected by an individual's total superannuation balance. The contribution must be made within 90 days of receiving the proceeds from the sale (usually at the date of settlement).

Eligibility

To make a downsizer contribution, an individual must meet certain eligibility conditions.

- The individual must be at least 55 years old;
- The property must have been owned for a minimum of ten years and must have served as the principal residence for tax purposes at some point, making it either fully or partially exempt from capital gains tax;
- The property must be in Australia and cannot be a caravan, houseboat, or any other mobile home;
- No previous downsizer contributions should have been made from the sale of another home;
- The contribution must be made within a 90-day window from the date of settlement;
- The downsizer contribution form must be provided to the receiving superannuation fund either before or at the time of making the contribution; and
- SMSF trustees will need to ensure their trust deed allows for this contribution. If it does not, the trust deed should be amended to align with the legislation.

Other considerations: Transfer balance cap and Age Pension

While downsizer contributions are exempt from the regular contribution caps and restrictions, it does count towards the pension transfer balance cap, which is currently $1.9 million if commenced today. This cap becomes relevant when an individual transitions their superannuation savings into the retirement phase and is a key factor in determining their eligibility for the Age Pension.

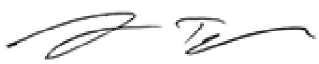
For individuals who have already maxed out their transfer balance cap, up to $300,000 can be moved into the superannuation accumulation phase, however it cannot be switched into the tax-free pension environment. Instead, a 15% tax rate will apply, which may limit the benefit of the scheme if the individual has limited personal income and therefore pays nil or minimum tax in their own name.

Furthermore, individuals receiving the Age Pension and considering taking advantage must be aware that the Age Pension asset and income test will continue to apply.

The principal residence is generally exempt from the Age Pension asset and income tests, and on sale the proceeds that are allocated to purchasing a subsequent property will be exempt from assessment for 24 months. If a downsizer contribution is made, the amount will immediately be assessed and may result in a reduction or loss of the Age Pension.

Learn more

We encourage you to consult with your financial adviser to assess the implications of selling your home and making a downsizer contribution.
If you believe the home downsize contribution scheme could benefit you and want to confirm eligibility and its suitability for your financial situation, please get in touch with the Bell Potter Technical Financial Advice Team for a detailed discussion.



Jeremy Tyzack
Head of Technical Financial Advice
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Bell Potter's technical financial advice team can put together a strategy designed to help you achieve your retirement objectives.

Working with you and your Bell Potter Adviser, we can help with most financial aspects of retirement, including:

- Identifying your financial goals
- Structuring your existing assets appropriately
- Identifying your approach to investment and your appetite for risk, and
- Reviewing your current superannuation arrangements.

To create a tailored investment plan based on your needs and objectives call your adviser or 1300 0 BELLS (1300 0 23357).

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