

Understanding the downsizer contribution

Version 1.1



This document provides some additional information about the **downsizer superannuation contribution** discussed in the SOA so that you can understand the benefits of the strategies recommended to you, and the associated costs and risks.

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This document contains general information about the benefits, costs and risks associated with certain product classes and strategies. It is designed for use in conjunction with a Statement of Advice that takes into account the circumstances and objectives of an individual. Before making a commitment to purchase or sell a financial product, you should ensure that you have obtained an individual Statement of Advice.

As legislation may change, you should ensure you have the most recent version of this document.

HOW TO READ THIS DOCUMENT

Managing your finances to meet your day to day requirements as well as your long-term goals can be a complex task. There are all sorts of issues you need to consider such as taxation, legislation, protecting your wealth and assets, associated costs and the inherent risks of investment. When undertaking a financial plan it is important you understand how these issues will impact you and what you should expect over time.

Your financial adviser will provide you with a Statement of Advice (SOA) which sets out the details of the advice and how it will meet your goals and objectives.

This document provides some additional information to help you understand the financial planning concepts discussed in the SOA in relation to the **downsizer contribution**.

It is very important you read this document to help you understand the benefits of the strategies recommended to you and the associated costs and risks.

Please contact your adviser if you do not understand anything, or need further information or clarification.

Downsizer contribution

The downsizer superannuation contribution provides an opportunity for eligible older Australians to sell their home and make a contribution to superannuation from the proceeds.

How it works

General eligibility

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

1. You are aged 65 or over at the time the contribution is made
2. The contribution is from the proceeds of the sale of a single eligible property in Australia
3. You do not claim a tax deduction for this contribution
4. You have owned the property for at least 10 years prior to the sale
5. You claim the capital gains tax (CGT) main residence exemption on the sale of this property (wholly or partly)
6. The contribution is made within 90 days of settlement
7. An election is made to treat the contribution as a downsizer contribution
8. The contract for sale of the property is entered into on or after 1 July 2018; and,
9. You have not previously made a downsizer contribution in relation to the sale of another property treated as your main residence.

Below we consider some of the requirements in further detail.

Eligible property

The property must have been your home in Australia but does not include a houseboat, caravan or other mobile home.

Capital gains tax main residence exemption

You must claim the CGT main residence exemption on this property. This exemption may be in part or for all of the ownership period.

If your home was purchased prior to 20 September 1985 (i.e. a pre-CGT asset), the tests for the main residence exemption are applied to determine whether or not you would have otherwise been eligible to apply the concession to determine whether or not the dwelling is an eligible residence.

10 year ownership period

You are required to have owned the property for at least 10 years. This is measured from the original settlement date to the time of that legal ownership passes to the new owner (settlement date).

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 will count towards the ownership period of the surviving spouse. This may also arise in the event of relationship breakdown.

Downsizer contributions

The maximum downsizer contribution that an individual can make is the lesser of:

- \$300,000 or
- Proceeds received on the sale of one eligible property.

Where members of a couple wish to make downsizer contributions in respect of the same dwelling, the total downsizer contributions made in respect of the same eligible property must not collectively exceed the lesser of \$600,000, or the total sale proceeds.

The contribution must be made to a superannuation fund within 90 days of settlement of the property (i.e. change of ownership). You must elect to have this amount treated as a downsizer contribution in the approved form.

This form must be given to the trustee of the superannuation fund before or at the time the contribution is made so the amount can be correctly classified.

If the form is not completed and provided before the contribution is made, the contribution is treated as a non-concessional contribution (see below).

The trustee of the superannuation fund may refund the contribution if unable to accept the amount, because for example you haven't met a work test and therefore are not eligible to make non-concessional contributions. If the amount can be accepted, it will be assessed against your non-concessional contribution cap and will not be refunded. This situation may also arise if the Australian Taxation Office (ATO) becomes aware that the contribution does not satisfy the criteria to be a downsizer contribution and will notify the superannuation fund trustee.

The normal criteria for making superannuation contributions do not apply when an eligible downsizer contribution is made. This includes:

- no work test
- not limited by the total superannuation balance test; and
- contribution does not count towards any superannuation contribution caps.

The downsizer contribution must be made within 90 days of the settlement of the property. An application can be made to the ATO to have this timeframe extended. The extension is at the discretion of the ATO.

Non-concessional contributions

Non-concessional contributions generally consist of contributions from after-tax income, such as personal non-deductible contributions and spouse contributions.

The annual non-concessional contribution cap for the 2018/19 financial year is \$100,000. But if you are under age 65 on 1st of July in a financial year you may be able to trigger the 'bring-forward' rule to make larger contributions.

The 'bring-forward' rule effectively groups contributions over a two or three year period. It allows you to bring forward up to an additional two years' worth of non-concessional cap in addition to the current year's cap. But you can only contribute up to \$300,000 over the three year period. This rule may be useful if you are selling a large asset (such as an investment property) and want to contribute the proceeds into superannuation. The bring-forward rule is automatically triggered if you are eligible, and exceed your annual

non-concessional limit. Once triggered, your non-concessional contribution cap will not be indexed for the next two years.

In addition, you must have total superannuation savings of less than \$1.6 million at 30 June of the previous financial year to be eligible to make any non-concessional contributions in the following year. As such your non-concessional cap and eligibility to use the bring-forward rule will reduce if your total superannuation savings are more than \$1.4 million on the 30 June prior to the financial year in which you trigger the bring-forward rule. These rules are complex so it is important that you get advice.

If you exceed your non-concessional contribution cap, you can choose to have the excess contributions and associated earnings (as calculated by the ATO) refunded with penalty tax only applied to the earnings. If not withdrawn, the excess contributions are taxed at the highest marginal tax rate. The tax payable must be withdrawn from superannuation.

