

JULY
2018



5 tips for downsizing your house and upsizing your super



Once the kids have left, many people find themselves in a large family home, thinking about downsizing. But now that idea could be a way to help pay for your retirement living expenses.

From 1 July 2018, older homeowners can sell their family home and make a non-concessional (after-tax) contribution into their super of up to \$300,000 (\$600,000 for a couple) from the sale proceeds.

"It's an opportunity to access equity in the family home and help boost your retirement income with no strings attached," explains Peter Hogan, Head of Technical at the SMSF Association.

"The best thing is that for those aged over 65 there are no specific contribution requirements – unlike other types of super contributions. It's also independent of the other contribution limits." For some retirees, it may even be their first chance to take advantage of the lower tax environment within super.

Is it worth it?

Before rushing off to make a downsizing contribution, it's important to remember there are costs. When selling and buying a smaller home (particularly in a capital city), the transfer costs can be substantial.

"Stamp duty on another purchase needs to be factored in," notes Hogan.

Downsizing into a smaller property doesn't always release a lot of capital either, so think about whether you will have enough left over to make a worthwhile contribution.

Take care with aged care

Another consideration is the potential impact on your aged care costs and Age Pension entitlement. Downsizing contributions will be assessed under the assets and income tests used to determine your Age Pension benefit. This is important, because you are shifting money from an asset that is not counted (your family home), into an asset that is counted (your super).

"Money in the super environment is not exempt and the contribution may reduce your Age Pension benefit.

If the house is your only significant asset and you are relying on the Age Pension for income, this type of contribution may not be worth it," Hogan says.

Your super (including downsizing contributions) is also counted when determining your future aged care costs.



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If you're still interested in making a downsizing contribution, here are some tips:

1. Forget work tests and age limits

Under the new rules, the normal 'work test' for voluntary contributions by those aged 65-74 does not apply. Normally, you need to have worked 40 hours in a 30-day period during the year to make super contributions.

People aged 75 and over who are currently unable to make any super contributions – even if they are still working – will also be able to take advantage of the new rules.

2. You don't have to buy again

Downsizers are not required to buy a home after selling. If you do, it doesn't have to be a smaller one. In fact, you could purchase a bigger or more expensive replacement home.

"There is not even a requirement that both partners need to be the joint legal owners of the property that is sold in order to benefit from the downsizing contributions" explains Hogan.

3. Ensure you submit a contribution form

The ATO will be administering downsizing contributions, so your paperwork must be in order. The sold property must be your main residence and must be eligible for the main residence exemption for capital gains tax.

Before a super fund will accept your downsizing contribution, the ATO requires it to verify the contribution, so you will need to complete a special form.

4. Watch the time limits

There is a 90-day limit on the time between receiving the sale proceeds and making a contribution into super, so downsizers need to act promptly. However, the new rules don't stop you from investing the sale proceeds or mixing the money with other investments before you make your contribution.

5. Check your retirement income limit

Although the new rules are generous, the limit on the amount of super savings you can use for a tax-free retirement income stream still applies. "It's only a free kick to get it into super. You will not be able to put it towards paying a retirement income if you have reached your \$1.6 million cap," explains Hogan.