Downsizing contributions into superannuation

ESSSuper
Emergency Services & State Super

As you approach retirement, you may be looking for ways to boost your super savings. However, the strict limits on contributions to super make it difficult to significantly increase your super later in life. The exception is a downsizer contribution for members aged 65 and over, which lets you put money from the sale of your home into super in a tax-effective way that doesn't affect the other contribution caps.

How do you make a downsizer contribution?

From 1 July 2018 if you're aged 65 or over, you can contribute up to $300,000 to your super from selling your main residence. Couples who own the same home can contribute a total of up to $600,000, even if both names aren't on the title. You can make more than one contribution, but it has to be from the sale of the same main residence, and can't exceed individual limits[1]. You also don't have to purchase another home after you sell your main residence.

1. Members can make more than one downsizer contribution, however it can only be from the proceeds of single main residence and cannot exceed $300,000 in total.

Who is eligible?

- You must be aged 65 or over
- You must make the contribution within 90 days after receiving proceeds from the sale of your home
- The property must be your main residence, which you've held for 10 years prior to the sale[2].

2. The property is considered to be a main residence if the proceeds (capital gain or loss) from the sale of the home are either exempt or partially exempt from capital gains tax (CGT) under the main residence exemption, or would be entitled to such an exemption if the home was a CGT rather than a pre-CGT (acquired before 20 September 1985) asset. Source: Australian Taxation Office.

Which ESSSuper super funds can you make a downsizer contribution to?

An ESSSuper Defined Benefit Fund is not eligible to receive a downsizer contribution. The ESSSuper Accumulation Plan can receive a downsizer contribution. Making a contribution to your super fund ensures the money is retained in the low tax superannuation environment.

Do any other restrictions apply?

The downsizer contribution cap of $300,000 per individual is not restricted by the Non-concessional contribution cap, the Total Super Balance or the need to satisfy the Work Test[3] if you're fully retired or aged 75 or over.

3. Work Test: Non-concessional contributions can be made between ages 65-74 if you have worked at least 40 hours in any period of 30 consecutive days during the financial year that the contribution is made.

How does it impact the Age Pension Asset Test?

While your 'main residence' is not included as 'counted assets' for the purposes of the Age Pension Asset Test, your superannuation balance is counted. It's recommended you seek independent financial advice to determine how this may affect your specific situation.

Case study 1: How John and Cate contribute $600,000

John and Cate are both aged 68 and fully retired. They recently sold their family home for $900,000, having lived there for 25 years. Both John and Cate are eligible to make a downsizer contribution of up to $300,000 each. Because each contribution has come from the proceeds of selling their home – they are not required to meet the Work Test.

Case study 2: How Vic contributed over his Total Super Balance

Vic is 68 years old, working full time and has an Accumulation Plan with a balance of $1.8 million. He sells his home of 20 years for $1 million. Despite having a Total Super Balance in excess of $1.6 million – Vic can contribute after tax money from the sale of his home. He is eligible to make a downsizer contribution of up to $300,000.

Case study 3: Why Edgar's contribution is ineligible

Edgar, aged 65 years, sells an investment property he's held for 12 years. The property has always been used for income purposes. Although this property may have been owned for 12 years, it was never his 'main residence' and therefore Edgar is not able to make a downsizer contribution.

How do you apply?

To participate in the scheme, you need to lodge a downsizer contribution form to ESSSuper within 90 days after the receipt of proceeds from the sale of your main residence. The Australian Taxation Office (ATO) will be responsible for validating the eligibility of the downsizer contribution and will notify ESSSuper accordingly. If the ATO deem that your contribution does not meet the downsizer eligibility requirements – ESSSuper will assess if your contribution can be accepted as a personal contribution and have it count towards the relevant contribution cap. If it can't be accepted, the funds will be returned to you. Ultimately, the ATO determines whether your contribution is eligible under the downsizer scheme or not[4].

4. Warning: The ATO may apply 'false and misleading penalties' where an individual makes a downsizer contribution that was not eligible and had been incorrectly declared. For more information on false and misleading penalties, please seek advice from the ATO.

Where can you find out more?

We understand planning for your future can be a daunting task, that's why we recommended that you seek independent financial advice. ESSSuper do offer a financial planning service[5]. Our qualified Financial Advisers not only understand the unique complexities of your ESSSuper funds, but are also able to advise on more than just your super.

The first step is to check the ATO website at **ato.gov.au/downsizing** to determine if participating in this scheme is the best option for you.

For general advice or information, you can always talk to one of our Member Education Consultants.

If you'd like to have a face-to-face personal appointment to discuss your circumstances call our Member Service Centre on 1300 650 161 (Emergency service members) or 1300 655 476 (State super members).

5. ESSSuper Member Education Advisers and Financial Planners are authorised representatives of Adviser Network Pty Ltd (Adviser Network). Adviser Network holds a current Australian Financial Services Licence No. 232729 and is responsible for the financial services provided to you. ESSSuper has an arrangement with Adviser Network Pty Ltd to provide financial advice to ESSSuper members. ESSSuper pays Adviser Network a fee for this service. Neither the Board, nor the Victorian Government, guarantee or endorse any recommendations made by Adviser Network, or are responsible for the advice and actions of Adviser Network.

Proudly serving our members