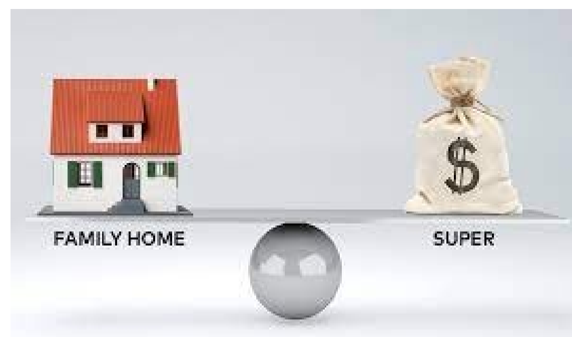
WEALTH BITES

2024

Understanding downsizer contributions



The downsizer rules may allow you to get more money into the tax-effective super environment when you sell your home. Be careful though, you need to plan (preferably before you sell your home) to make the most of this opportunity.

Despite the name, you don't need to buy another home to be eligible to make a downsizer contribution.

If you're 55 and older and meet the eligibility requirements, you might be able to contribute up to $300,000 of proceeds from the sale of your home to super. If you have a spouse, your spouse might also be able to contribute up to $300,000. There is no upper age limit for making a downsizer contribution, and they are not limited by your total super balance.

When the rules were introduced, the youngest age at which a person could make a downsizer contribution was 65. This minimum age was reduced to 60 from July 1, 2022, and then again to 55 for downsizer contributions made on or after January 1, 2023.

Eligibility requirements

The following requirements must be met to make a downsizer contribution:

- you must be age 55 or older at the time the contribution is made,
- you must qualify for a full or partial capital gains tax (CGT) main residence exemption on the sale of the property,
- you (or your spouse or former spouse) must have owned the home (or land it is situated on) for 10 years or more prior to the disposal,
- the property being sold must be located in Australia and not be a caravan, houseboat or mobile home,
- the contribution must be made to super within 90 days of the settlement date of the property's sale,
- a downsizer contribution must not have not been made previously in relation to another property,
- the contribution must be equal to all, or part, of the capital proceeds from the sale of an interest in a dwelling held by you or your spouse,
- you must provide the super fund with a downsizer contribution form either before or at the time the contribution is made, and
- the contribution cannot exceed the downsizer contribution cap.

If you purchased your home before September 20, 1985 (i.e. before CGT was introduced), you can still make a downsizer contribution if you would have qualified for a full or partial main residence exemption but for the pre-September 20, 1985, acquisition date (as long as all the other eligibility requirements are also met). Downsizer contributions are not tax-deductible.

You can purchase an "off the shelf" account-based pension from a fund manager, or alternatively, you can commence one within your own self managed superannuation fund.

Downsizer cap and limit

Downsizer contributions for an individual cannot exceed $300,000. That said, members of a couple, if eligible, can make downsizer contributions from the proceeds of the same property up to the $300,000 limit.

As well as the cap, the downsizer contributions in relation to a single home are limited to the sum received by both the homeowner and their spouse from that one contract of sale.

Making the contribution

The downsizer contribution must be made within 90 days of the property's settlement date.

If you choose to make the contribution a downsizer contribution, the contribution must be identified as a downsizer contribution in the form approved by your super fund. This notification must be provided to your fund at or before the time the contribution is made.

Importantly, downsizer contributions are preserved and cannot be accessed until you meet a condition of release (e.g. reaching age 65 or retirement on or after your preservation age). Furthermore, downsizer contributions will be counted in your total superannuation balance, which may impact your ability to make future super contributions.

Any Centrelink entitlements you receive might also be impacted when you sell your home.

Potential benefits of making a downsizer contribution

Making a downsizer contribution can have several benefits, including the following:

- Downsizer contributions can help build up your retirement savings.
- No tax is payable when a downsizer contribution is made to your super fund.
- Downsizer contributions generally add to the tax-free component of your super fund.
- Downsizer contributions do not count towards your concessional or non-concessional contributions caps, leaving them available for other contributions.
- There is no upper age limit on when you can make a downsizer contribution.
- Your total superannuation balance does not limit your ability to make a downsizer contribution.
- A maximum tax rate of 15% is generally paid on investment earnings in the accumulation phase of super and transition to retirement pensions, as opposed to your marginal tax rate outside of super.
- When your funds are transferred into the retirement phase pension, there is no tax on earnings within the fund. Furthermore, income payments made to you are tax-free once you reach age 60 (from a taxed fund). Note that the amount of funds that can be transferred into a retirement phase pension is limited by your transfer balance cap.

The rules relating to downsizer contributions can be complicated. There are strict eligibility requirements and time frames for contributing.

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