Downsizing your home

Understanding the downsizer contribution

January 2023

Downsizing the family home is often part of the longer-term financial plans for many older Australians. But did you know that you could consider investing the proceeds of the sale of your family home to your super – depending on your age and circumstances – as a downsizer contribution?

What is a downsizer contribution?

From 1 January 2023, if you're aged 55 years or older you may be eligible to make a downsizer contribution of up to $300,000 to a complying super fund (all BT superannuation funds will accept eligible downsizer contributions, unless you are in a defined benefit fund), from the proceeds of the sale of your primary residence, which is owned for 10 years or more. Prior to 1 January 2023, you had to be 60 years or older to make a downsizer contribution.

A downsizer contribution doesn't count towards any of the contribution caps – and can still be made even if a person has total super savings greater than $1.7 million, or if they do not meet the work test requirements. It is a once-off option and doesn't apply to the sale of any residences in the future.

Your spouse, provided they are also aged 55 years or older from 1 January 2023, can also make downsizer contributions to their own super, of up to $300,000 from the same proceeds, even if they are not an owner of the property. To do this, the sale price is key, as your couple contributions cannot be more than the total sale price of the property.

The benefits of the downsizer contribution

Contribution caps don't apply

It doesn't matter how much you already have in your super – the total super savings test (must be $1.7 million or less to make after-tax contributions) doesn't apply for downsizer contributions. It is important that the downsizer form is received by the fund either before or at the time the contribution is made for it to be an eligible downsizer contribution.

May be more tax-efficient

The downsizer contribution is an after-tax contribution, so no tax is paid on the way in.

You don't have to buy a new home

The money you make from the sale doesn't have to be used to purchase a new home, and there is no need to move to something smaller or cheaper. If it involves the sale of a previous principal residence (that is now an investment property), there is actually no need to move at all.

Who is eligible?

From 1 January 2023, the age threshold has reduced to 55 and there are a number of other important criteria that still need to be met:

1. You must sell a property that is located in Australia, and you must have owned the property for at least 10 years.
2. When you sell that property, you need to be eligible for some form of exemption from capital gains tax (CGT) on the sale of the property under the "main residence" provision. Basically, this means the property needs to be your principal place of residence for at least some time during its ownership.

   If you purchased the property before 20 September 1985 (so that CGT doesn't even apply), you still need it to have been your principal place of residence at some stage during ownership.

Continued over...

Keep in mind, it also doesn't matter if the exemption from CGT is a full or partial exemption, which means the property could have been an investment at some stage during your ownership of it.

Does it impact the Aged Pension?

If you qualify, or are hoping to qualify for the Age Pension, the impact of selling an asset needs to be considered. The value of your main residence is excluded from the assets test, however if it is sold, and some of the proceeds added to your super, that value will then be assessed and may reduce your age pension benefits.

How do you make a downsizer contribution?

If you are eligible, you'll need to complete a downsizer contribution form and provide this either before or together with your contribution cheque, to your complying superannuation fund so it can be correctly classified. The form is available from the ATO website.

It's important to be aware of the timing of your contribution into super. The contribution must be made within 90 days of receiving the proceeds of sale (or longer permitted period), which is usually the date of settlement.

Further information

For further information please contact Leanne Bielik on 0432 815 355 or leanne@2020wealthadvisory.com.