Downsizer super contributions: What you need to know

Once you reach your 60s and the kids have finally flown the nest, you may find yourself wanting a smaller or more suitable home.

For some retirees, selling the family home can also be a great way to release some of the equity they have built up and use it to make an extra contribution to their super account.

Under the downsizer contribution rules, your eligible contributions are exempt from many of the normal contribution caps and rules, so you can give your super a meaningful last-minute boost.

It's also worth remembering when these contributions move into the retirement phase and you start drawing an income, your investment earnings are tax free. Whereas, if you invest your sale proceeds outside the super system, you're liable for tax on any income from the investments.

How the downsizer measure works

Since 1 July 2018, older Australians have been able to make a non-concessional (after-tax) contribution into their super account of up to $300,000 from the sale proceeds of their family home if they have owned the property for at least ten years.

Originally downsizer contributions were only available to those aged 65 and over, but from 1 July 2022 if you are aged 60 or older you can make this type of contribution into your super account if you meet all the eligibility criteria.

Over the years downsizer contributions have proved popular, with data in the Federal Budget 2021–22 indicating around 22,000 individuals have made downsizer contributions.

To make a downsizer contribution the property being sold must be your family home (main residence) and must be eligible for the main residence exemption for capital gains tax (CGT). An investment property you have not lived in is not eligible. The property must be in Australia and cannot be a caravan, houseboat or other mobile home.

Couples can contribute up to $300,000 each into their super accounts, giving a total contribution per couple of up to $600,000.

Any super contributions made using the downsizing rules do not count towards either your concessional (before-tax) or non-concessional (after-tax) contributions caps.

10 issues to consider before downsizing and contributing to super

1. It's an opportunity to boost your super balance

Retirees who have not had the opportunity to save sufficient funds for a comfortable retirement can use the downsizer contribution rules to top up their super balance.

One of the key benefits of downsizer contributions is the annual concessional and non-concessional contributions caps don't apply to these contributions, allowing you to make a sizeable top-up to your super account.

Downsizer contributions can be made in addition to any concessional and non-concessional super contributions you are eligible to make, without needing to worry about exceeding your annual cap amounts.

2. There's no age limit or requirement to meet a work test

There is no requirement for you to be employed or under a certain age to make a downsizer contribution.

Although you must be at least age 60 to make a downsizer contribution, there is no maximum age limit for making these contributions.

Normally if you're aged 75 and over, the super rules prevent you from making voluntary contributions, so downsizer contributions present a valuable opportunity to make good use of the tax benefits super offers.

There is no requirement to be working or to have been in paid employment ever. This makes downsizer contributions a useful option for older people who have not had a chance to save enough funds for retirement.

3. Contributions count towards your transfer balance cap

If you decide to make a downsizer contribution into your super account, it will count towards your transfer balance cap (TBC) if you decide to move your super into the tax-free retirement phase and start a retirement income stream.

If you have already reached your personal TBC (between \$1.6 million and \$1.7 million from 1 July 2021), your downsizer contribution will need to remain in your accumulation phase super account (where any investment earnings on the contribution will be subject to tax at 15%).

4. Contributions are not subject to the Total Superannuation Balance limit

Generally you can't make non-concessional (after-tax) contributions to your super account if you have a Total Superannuation Balance (TSB) of $1.7 million or more.

If you have maxed out your opportunity to make non-concessional contributions to your super account, you can still make a downsizer contribution as they are exempt from the $1.7 million TSB limit. However, your downsizer contribution will count as part of your TSB in future financial years. Yes, it's complicated, so seek professional advice before you act.

5. There's no requirement to buy a new home

If you make a downsizer contribution (from the sale of your principal place of residence) you are not required to buy a new home. In fact, there's no requirement to buy a cheaper or smaller home after making a downsizer contribution, so you could decide to purchase a more expensive replacement.

6. You must submit a downsizer contribution form

To be eligible to make a downsizer contribution, you must provide your super fund with the Downsizer contribution into superannuation form either before or at the time of making your downsizer contribution. This form allows your super fund to verify on behalf of the ATO that the contribution is from the sale of a family home owned for more than ten years.

7. Contributions count toward Age Pension assessment tests

Your main residence is generally exempt from the assets and income tests used to determine eligibility for the Age Pension and DVA benefits, but super is generally not exempt, so consider the implications of these rules before selling your home or making a downsizer contribution.

Downsizer contributions are counted under both the Age Pension assets and income tests, so you will be moving money out of an exempt asset (your family home) into the non-exempt and assessable environment of super.

It’s also worth noting your super balance (including downsizer contributions) is used to determine eligibility for residential aged care and home care services and the ongoing fees you need to pay.

8. It’s a one-time only offer

Under the downsizer contribution rules, you can only take advantage of the measure once. You can’t access it again for the sale of a second home.

For your downsizer contribution to be eligible, the proceeds from the sale of your home must be either exempt or partially exempt from CGT under the main residence exemption (or entitled to the exemption if it was purchased prior to 20 September 1985).

9. There’s a time limit for making the contribution into super

Under the downsizer contribution rules, you must make your downsizer contribution (or multiple contributions providing the total amount is the lesser of the sale amount or $300,000 per person) within 90 days of receiving the sale proceeds (this is typically on settlement day).

You need to apply for an extension if you require a longer period due to circumstances outside your control, such as ill health or a family death. Although the ATO may grant an extension in some situations, it has made it clear that time extensions will not be granted to allow you or your spouse to meet the age requirement.

10. You can invest the proceeds before contributing

Under the downsizer contribution rules, you have 90 days in which to make your contribution, but there are no rules on what you can do with the money during that period. During the period between settlement and making a super contribution, there are no rules preventing you from investing the sale proceeds or mixing the proceeds with other money.