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What's changing with the eligibility age for downsizer contributions from 1 July 2022?

Since the advent of downsizer contributions on 1 July 2018 until January 2022, around 37,000 individuals have contributed approximately $9 billion[1] as a downsizer contribution. Rules relating to downsizer contribution continues to be a topic of interest in the financial planning community given its touch points with many issues relating to advice.

In further loosening of the rules, from 1 July 2022, the eligibility age for downsizer contributions will be reduced to 60. This is expected to initiate more opportunities for advice from eligible clients who sell their main residence and are wanting to contribute to super.

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For individuals under age 75, removal of the work test for non-concessional contributions (NCC) combined with new bring forward opportunities, 1 July 2022 heralds a positive legislative change. Future financial years could bring about more opportunities to contribute up to $1.26 million in one hit for eligible members of a couple – for example, $330,000 each as a NCC and $300,000 each as a downsizer contribution.

What are the downsizer contribution rules from 1 July 2022?

- 60 years or older (currently 65) at the time the downsizer contribution is made. There is no maximum age limit.
- Up to a maximum of $300,000 contribution per person. The contribution cannot exceed the sale proceeds.

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- Home was owned by client or their spouse for 10 years or more prior to the sale – the ownership period is generally calculated from the date of settlement of purchase to the date of settlement of sale.
- The home being sold is in Australia and is not a caravan, houseboat, or other mobile home. There is no requirement to buy another home.
- 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 asset.
- Downsizer contribution into super form (NAT 75073) is provided to the super fund either before or at the time of making the contribution.
- Contribution is made within 90 days of receiving the proceeds of sale, which is usually at the date of settlement.
- Have not previously made a downsizer contribution to super from the sale of another home.

Importantly, the requirement to be 60 or over is not at the time of contract for sale or settlement. Rather it is based on the age at the time of contribution, noting that there is a requirement to contribute generally within 90 days of settlement. This means that eligible clients in the age range of 60 – 64 who sell their home during the April – June quarter may be able to contribute post 1 July 2022, under the downsizer contribution rules.

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Example

Maya (63) and Greg (70), both retired, dispose of their main residence, with settlement on 1 May 2022. They have lived in this property for more than 10 years and except for Maya's age in the 2021-22 financial year, it meets all the other eligibility criteria for a downsizer contribution. After buying their new home, they expect to have $1 million residual sale proceeds, wanting to contribute to super to provide retirement income.

Greg can make a $300,000 downsizer contribution in this financial year or anytime before 30th July 2022 (which is 90 days from settlement).

Regarding Maya, as she is under 65, she is not able to contribute under the downsizer contribution rules in this financial year as the new legislation won't be effective until 1 July 2022. However, as she is 60 or over, she can make a downsizer contribution next financial year, as long as the super fund receives her contribution before 30 July 2022 (which is 90 days from settlement).

Depending on their goals and objectives and with further flexibility from 1 July 2022, Maya and Greg could make contributions in a number of ways.

Maya and Greg have been considering their eligibility for Centrelink entitlements. As Maya is less than pension age and with superannuation being exempt in accumulation phase until she reaches pension age, their financial adviser recommends the following mix of contributions:

Maya – total contributions of $740,000

- NCC of $110,000 before 30 June 2022
- NCC of $330,000 anytime between 1 July 2022 and 30 June 2023
- Downsizer contribution of $300,000 anytime between 1 July 2022 and 30 July 2022

Greg – total contribution of $260,000

- Downsizer contribution of $260,000 anytime between 1 May 2022 and 30 July 2022

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