



Downsizer Contributions

Manoj Abichandani | SMSF Specialist (UNSW)

Our Speaker Today

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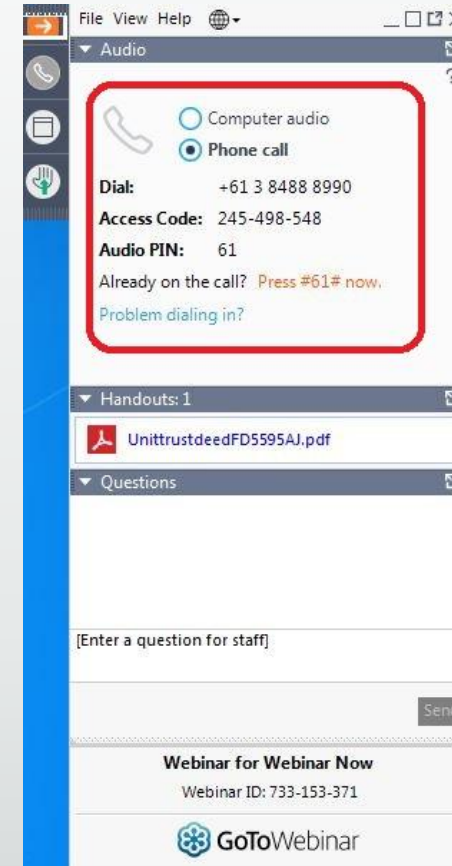
Downsizer Contributions

1. Who is it for...
2. What is this new downsizer contribution to super
3. When, where can you contribute
4. How to audit these Contributions

House Keeping - Audio

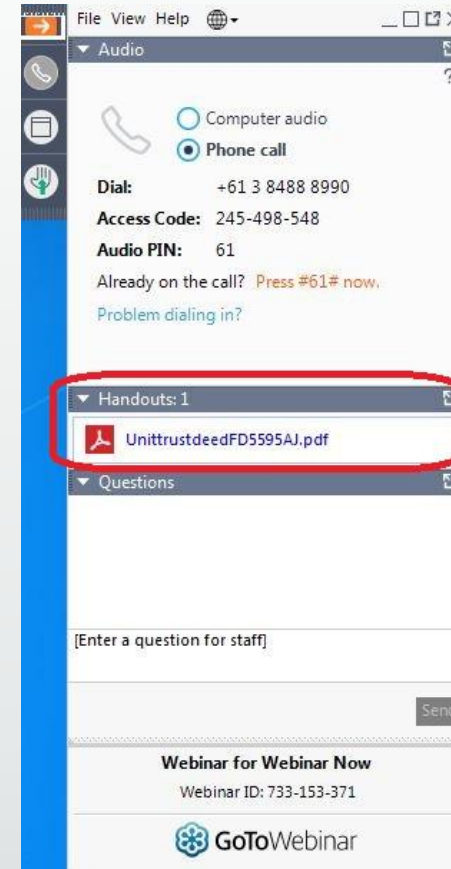
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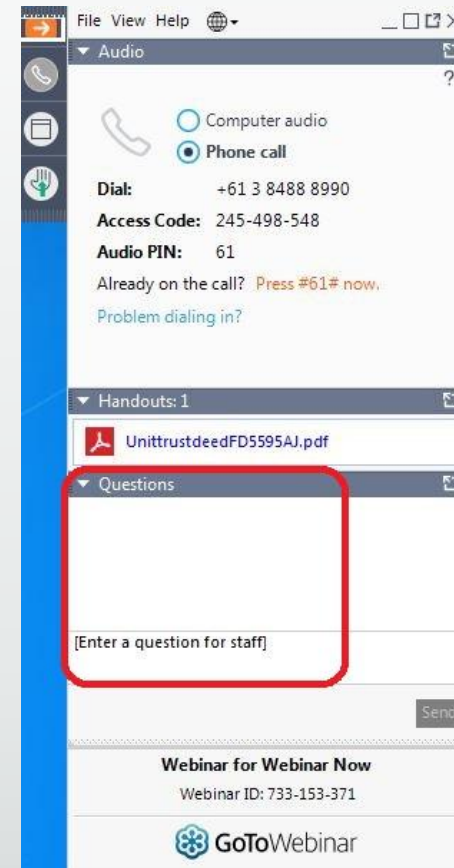
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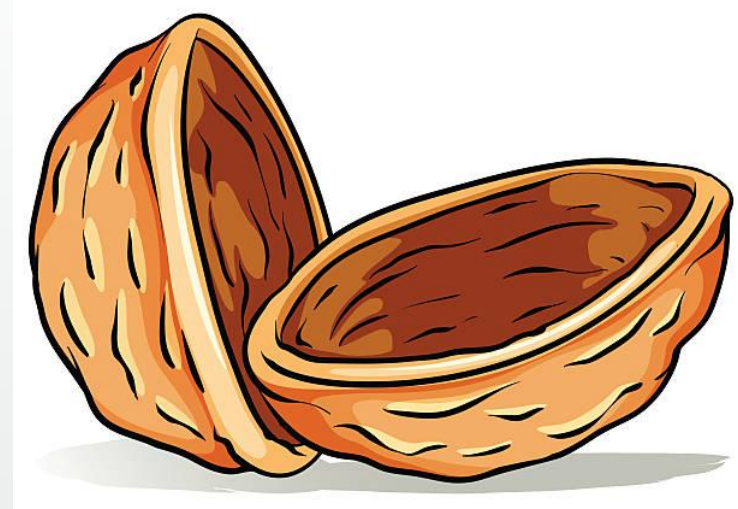
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Downsizer Contributions – In Nut shell



- Over 65 Year olds
- Contributions to Super after selling your “Own Home” of 10 years
- Time limit Requirement - within 90 days of sale
- Maximum that can be contributed - \$300,000 - Non-concessional
- Breach of Total Superannuation Balance - \$1.6M
- Trust Deed Requirement
- Reporting Requirements

Purpose of Downsizer Contribution

- legislated under Section 292-102 of ITAA 1997

- Reduce pressure on **availability of housing in prime areas**
- No requirement to purchase another home
- Young people are not able to purchase property
 - Many large family homes sit occupied by older singles and couples
- Help Older people who are not working to contribute to Super
 - -Over 65 year – **work test**

Making a contribution....

1. Any one can make a contribution for an individual
2. Individual member has **to report to the trustee** to treat the contribution as a “Downsizer Contribution”
3. Cannot be claimed as a tax deduction – Not Concessional
 - Not a non-concessional contribution
 - **3rd Type of contribution**
4. Contributor must be 65 Years old – **No Max age**
5. Ability to contribute without a work test (Only Mandated contributions allowed)
6. Sell home and **earn tax free income** if under the Transfer balance cap

Who can contribute

1. You must be 65 years or older at the time of making a downsizer contribution
2. Proceeds of selling your own home (exchange date) must be entered into on or after 1 July 2018
3. Sale of only one home (No Second Opportunity)
4. Must have ownership interest - solely, jointly or as tenants in common
5. Home MUST be eligible for PPR exemption
6. Must be owned by 10 years
 - You must have owned it or Spouse must have owned it – Deceased situations
 - Relationship breakdowns – 2 spouses may have owned it
 - As long as one of the spouses owned it – both spouses can make a contribution

What type of property qualifies...

1. Either spouse Must have owned it for 10 Years
2. Property **up to 2 Hectares**
3. Legal or equitable interest or right or licence to occupy a dwelling (section 118-130 of ITAA 1997)
4. **Located within Australia** and is not a caravan, houseboat or other mobile home
5. **Can be a vacant land for some part of 10 years** – due to – new building / rebuild / destroyed due to fire
6. Must qualify under CGT main residence exemption – even for one spouse
 - **Even if exemption is partial** – Property will qualify
 - **Investment Property which were PPR** – Property will qualify

90 Day contribution rule

The property has to be sold (Contract signed) after **1st July 2018**

- Contribution must be made **within 90 days after the change of ownership** - occurs at settlement date
- **Multiple contributions OK** - but must be all within the 90 day period
- Contributions can be **to multiple funds**
- Contributions can be to **one or more SMSF's**

Downsizer Contributions Vs Total Superannuation Balance

- 1) You cannot make a non-concessional contribution if your TSB is equal to or greater than \$1.6M
- 2) Contribution is unaffected by the total superannuation balance test
- 3) Contribution will increase an individual's total superannuation balance for the purposes of that test
 - If both contributions are to be made = make non-concessional first (work test)

Other issues...

- Trustee should be allowed to accept these contributions = trust deed
- SMSF Trust Deed Update (**handout**)
- Provide an approved form to the trustee (**ATO approved form**) – before or on the day of contribution is made
- **Each contribution (in case of multiple) = approved form**
- Approved form is a Declaration (**handout**)
- Not a non-concessional – but is added in Tax – Free Component in the member balance

Amount of contribution

The downsizer must be no more than the maximum allowed – the downsizer contribution cap is the lesser of:

- The proceeds of the sale; and
- **\$300,000 per person**

A downsizer contribution is a **once off opportunity**

It applies to the sale of **one qualifying home only**

Suitability

Do not suit every 65 year old client with or without a self managed super fund.

Contribution is **not exempt from Centre link Asset test**

(effectively be transferred from an asset test exempt asset (the family home) to an asset tested asset)

Cannot be in retirement phase if the individual has already commenced pension with \$1.6M – Accumulation Account – Taxed at 15% - **Income is taxable component**

Points to note for SMSF - Audit

- 1) How to identify downsizer contributions - ATO Form
- 2) How would an auditor know that the property was members PPR - Declaration
- 3) 90 day rule – Contract of Sale – solicitors letter
- 4) Trust Deed requirement to accept contributions – **Can Trustee say "NO" if not permitted by trust deed**
- 5) **Return contributions** if not received as per scheme
- 6) Ensure that Contribution is **not claimed as a tax deduction**

Questions Time

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