PODCAST – <u>Downsizer contributions</u>

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Hello, and welcome to the **Plum Super Podcast Series**

My name is **Marcus Thompson** and I'm here today with my colleague, **Chris Odgers**, two of your Superannuation Consultants at MLC Wealth. Our role is to provide information, guidance and advice to our super members throughout their working life and into retirement.

Marcus: Hi Chris

Chris: Hi Marcus, it's great to be here.

Marcus: Today we want to talk to you about a specific form of contributing funds into super - available to a select group of individuals.

Chris, today's topic is <u>Downsizer contributions</u>

Before we talk about this in more detail, I thought it might be worthwhile recapping the two key types of contributions into super, covered in a separate podcast conversation.

Chris: Sure, and a good idea I think to provide some context for this topic.

Marcus: As I recall, you differentiated the two broad categories of contributions into super as concessional and non-concessional.

So just a brief recap please:

Chris: Yes, that's right Marcus.

We explained that concessional (or 'pre-tax') contributions are made up mainly of employer contributions, but also include any pre-tax contributions that you make to your super account in the form of a salary sacrifice arrangement that you've set up with your Payroll.

They also include contributions you make with your own funds, that you claim a personal tax deduction for.

Concessional contributions attract a contributions tax of 15% and are covered by an annual cap of $30,000, which was adjusted from $27,500, effective 1 July 2024.

Marcus: And non-concessional contributions?

Chris: Non-concessional (or 'after tax') contributions can be made by you from your own funds, that is from money you've already paid tax on. Typically, we see these contributions being made from a bank account/term deposit, and sometimes from the sale of an asset such as an investment property or share portfolio.

Because you've already paid tax on these funds, there is no additional tax when the money goes into or out of your super account.

Similarly, there is a cap that applies to non-concessional contributions—this one's a bit higher, currently at $120,000 per year, having also recently being adjusted, this time from $110,000 per year, effective 1 July 2024. In addition, the 'bring forward' rule has been maintained which allows you to contribute up to three years of contributions in the one year—that can be as much as $360,000 when you meet certain eligibility criteria. And this can be particularly useful when selling a large asset, such as an investment property. Of course, if using the 'bring forward' rule to the full extent of $360,000, the member would not be able to make additional non-concessional contributions in the next two years.

Marcus: Thanks for that Chris.

And a reminder that additional information on super contributions can be obtained in the separate podcast topic of that name.

Now, back to today's topic, downsizer contributions.
Broadly what type of contribution is this and who's eligible?

Chris: Marcus, Downsizer contributions are an additional contribution type, available for older Australians, and was introduced on the 1st of July 2018.

It allowed people over the age of **65** to contribute up to $300,000 to their super, using the proceeds from the sale of a home which had been their main residence at some point in time, and to which the main residence capital gains tax exemption applied wholly or partially. The minimum age to make a downsizer contribution was subsequently reduced to **60**, from 1st July 2022, and again to **55**, from 1st January 2023.

Some examples where this strategy could be useful is if an individual or couple decide their current home is too big and are looking to downsize to a smaller house or unit.

Alternatively, they may be seeking a sea change or simply because they wish to release additional capital to maintain their lifestyle.

Marcus: So, before we go any further, let's reiterate some reasons why people may wish to put additional funds into their super and make such a contribution.

Chris: It's a good way to boost their super, especially for people who may have a low existing or diminishing super balance.

Super is a concessionally taxed form of savings, which can be converted into an attractive pension at retirement, and is generally tax free if you're aged over 60.

And the good news is that for couples, both partners can take advantage of the downsizer contribution opportunity, which means up to $600,000 per couple can be contributed towards super.

This could significantly increase their lifestyle in retirement.

Marcus: So how do downsizer contributions work, and how do they interact with other types of contributions that members make to their super?

Chris: It's important to understand that downsizer contributions are a relatively new, entirely separate classification of super contribution.

They're not related to the concessional and non-concessional contribution types that we've discussed separately; that is those with the recently increased annual caps of $30,000 and $120,000.

Those caps are separate to these for downsizer contributions – (and *their* limit of $300,000) - and, in fact, some people may be eligible to make all three forms of contributions to their super in one year.

Marcus: OK, so what other factors do people need to consider before making a downsizer contribution?

Chris: There are a few qualifying criteria which I'll go through:

- As mentioned already, you must be aged 55 or older to make a downsizer contribution
- The contract for sale of the property must have been entered into on or after 1 July 2018
- The property that's sold needs to have been owned by you (or your spouse) and have been your main place of residence at some point in time. If you've rented this property out for periods of time, you may still qualify, as long as the property qualified as your main residence at some time, but it's best to seek advice.

Marcus: And I understand there's a period the home must have been owned for. Is that right?

Chris: Yes, that's correct.

- It needs to have been owned for at least 10 years

  Additionally:

- The sold property must be in Australia, and excludes caravans, mobile homes and houseboats
- The contributions to super must be made within 90 days of settling on the property sale, and the approved downsizer contribution form must be received by the super fund before, or at the time of the contribution . . .

Marcus: And I assume Chris, that you can only utilise this type of contribution once?

Chris: Yes, it's a good point. Unlike the other forms of contributions that we've spoken about,

To be eligible, you must not have made a downsizer contribution previously using the sale proceeds from another home you've sold

And finally, you should understand that downsizer contributions aren't tax deductible.

So, a few things to consider there . . .

Marcus: Chris, given the qualifying age to make a downsizer contribution has now been reduced by a full ten years since it was introduced in July 2018, it means more people will now be eligible, many of whom are actually still working. Accordingly, I think it's worthwhile summarising how Downsizer contribution eligibility interacts with the work test that people may be familiar with.

Chris: Yes, a good point Marcus, and this relates to some changes that became effective on 1st July 2022.

Previously, people aged 67 to 74 generally needed to satisfy a work test (where they must work 40 hours over a period of no more than 30 consecutive days) in order to make voluntary super contributions.

From 1st July 2022 however, this group of people are no longer required to satisfy the work test or work test exemption to make concessional or non-concessional contributions. (Please note further information on super contributions is covered in a separate podcast by the same name).

In any event however, downsizer contributions are not subject to the work test or upper age limit.

Marcus: Given this method of getting funds into super is called downsizer contributions, can I assume that people need to purchase another, possibly lower valued property with the sale proceeds, as the name suggests?

Chris: No, there is actually no requirement to use the proceeds for that purpose.
In fact, people may choose to rent following the sale of their home, or move into other forms of accommodation, such as an aged care facility.

Marcus: Chris, is there anything we've missed? What else should people be aware of before considering a downsizer contribution?

Chris: Marcus, a few additional points before we finish:

Downsizing the home may impact Age Pension eligibility. There's no special Centrelink means test exemption for making downsizer contributions.

The costs involved in selling a property and buying another one (if that's part of the plan) can be considerable, so people need to consider any additional property-related costs.

Marcus: So, Chris where can people go for further information about downsizer contributions or any other aspect of their Plum superannuation account?

Chris: Yes, there's a few sources of support for our members:

1. The Plum website at www.plum.com.au

Lots of information here. We remind people it's a great idea to set themselves up with online access to their account if they haven't already done so. You can also check out our range of podcast topics here, via our **Financial Wellness Hub**, which can be accessed from the 'News & views' tab on the website.

On the **Financial Wellness Hub**, you will also find educational and interactive content that goes beyond superannuation, addressing your holistic needs, by providing access to industry experts and thought leaders.

2. Plum contact centre on **1300 55 7586**
   Between 8.00am and 7.00pm AEST, Monday to Friday

3. Conversation/personal financial advice

If you would like additional information on a more personal basis, a couple of options:

- 1:1 conversation with one of our Plum representatives (such as Marcus or myself) – General Advice basis. This can be booked for a convenient time, also via the **Financial Wellness Hub**.

- Or for personal financial advice, you can set up an initial meeting with one of our licensed financial planners. This can be initiated through the Plum contact centre – **1300 55 7586**

Marcus: Chris, thanks for assisting us with this podcast. We hope this information has been helpful.

Making any form of additional contributions can be a great way to boost your super balance and help to save for your retirement.

A reminder that the content today is general information.

Thanks, and bye for now.

Chris: Thanks everyone, bye from me too.