Keeping in Touch

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Budget offers an incentive to downsize

The 2017 Federal Budget encourages some older people to downsize from homes that no longer meet their needs to free up housing stock for young families.

Treasurer Scott Morrison's second Budget flagged an important change for people aged 65 and older who wish to downsize their homes.

The measure aims to encourage older people to downsize into housing more suitable to their needs. This is intended to increase the supply of larger houses, putting downward pressure on prices to help ease the current affordability crisis for first-home buyers.

What is the incentive?

The change will allow people aged 65 and older to make a non-concessional contribution of up to $300,000 into their superannuation from the proceeds of the sale of their principal home, which they must have held for a minimum of 10 years. For couples, that may mean an additional $600,000 in superannuation.

The change may be a big attraction for people aged 65 and over who are currently unable to contribute all or any proceeds of the sale of their home into superannuation because of the existing restrictions and caps.

To make it more appealing, the work test will not apply to the contribution and even people aged over 75 can use the scheme. The work test prevents people aged between 65 and 74 making contributions to their super unless they have worked for at least 40 hours over 30 consecutive days in the financial year.

The changes, which will begin from 1 July 2018 if they pass through Parliament, will be in addition to any other voluntary contributions people make under the existing rules and non-concessional caps.

What is there to consider?

However, the Age Pension assets test will take into account the sale proceeds, as any change in a person's superannuation balance counts towards the test. As a result, people whose pensions may be affected may not wish to sell their homes. People needing to balance a small Centrelink pension and a higher superannuation balance will have to consider their options carefully. Contributions made under the new rules won't be exempt from the $1.6 million transfer balance cap. Only people who have remaining space in their transfer balance cap will be able to convert the downsizing cap contribution into a pension phase account where earnings are tax-free.

Benefits of downsizing

Restrictions on non-concessional contributions for people with balances above $1.6 million will not apply to contributions made under this new special downsizing cap.

However, the measure may give people over 65 more financial planning flexibility. It may also allow people to move out of homes that have high utilities bills and council rates that may also require high levels of maintenance into cheaper, more manageable accommodation.

The Government estimates that the measure will cost $30 million in lost revenue.

Seek advice

Most changes must be legislated and pass through Parliament before they apply. If you think you may be impacted, you should consider seeking professional advice.

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