Budget **2017**

Reducing Pressure on Housing Affordability

Reducing barriers to downsizing

The Government will encourage some older people to downsize from homes that no longer meet their needs and free up housing stock for young families starting out. Older Australians will be provided with greater flexibility to contribute the proceeds of the sale of their home into superannuation, reducing a current disincentive to downsizing.

The issue

Being unable to invest the proceeds of selling their home into superannuation discourages some older people from downsizing. This means many larger family homes sit occupied by only singles or couples. Encouraging downsizing should enable more effective use of the housing stock by freeing up larger homes for younger, growing families.

The details

From 1 July 2018, people aged 65 and over will be able to make a non-concessional (post-tax) contribution into their superannuation of up to $300,000 from the proceeds of selling their home.

The existing voluntary contribution rules for people aged 65 and older (work test for 65-74 year olds, no contributions for those aged 75 and over) and 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.

This measure will apply to a principal place of residence held for a minimum of 10 years. Both members of a couple will be able to take advantage of this measure for the same home, meaning $600,000 per couple can be contributed to superannuation through the downsizing cap.

These new contributions will be in addition to any other voluntary contributions that people are able to make under the existing contribution rules and concessional and non-concessional caps.

Impact

This measure will encourage some people to downsize into housing that is more suitable to their needs, freeing up larger family homes.

It will assist 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.

Budget impact

This measure is estimated to have a cost to revenue of $30 million over the forward estimates.

Helping George and Jane downsize

George and Jane, both retired and aged 76 and 69, sell their home to move into more appropriate accommodation. The sale proceeds are $1.2 million. They can both make a non-concessional contribution into superannuation of $300,000 ($600,000 in total), even though Jane no longer satisfies the standard contribution work test and George is over 75. They can make these special contributions regardless of how much they already have in their accounts.

Helping John and Sarah downsize

John and Sarah, who are still working part-time at age 65, decide to sell the large family home after all the children move out. The sale proceeds are $1.4 million. They are both able to make a non-concessional contribution of $300,000 ($600,000 in total) into superannuation. This is regardless of how much they have in their accounts already. They may also be able to make additional contributions to their superannuation using the sale proceeds under standard contribution arrangements.

Questions and answers

Will sale proceeds contributed to superannuation under this measure count toward the Age Pension assets test?

- Yes. Any change in the person's superannuation balance as a result of this measure will count towards the Age Pension assets test.

Will contributions made under this measure be exempt from the $1.6 million transfer balance cap?

- No. Only people who have remaining transfer balance cap space will be able to convert their contributions into a pension phase account where earnings are tax-free.

Will the $1.6 million balance threshold for making non-concessional contributions also apply to the special downsizing cap?

- No. 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