Retirement planning

THE UPSIDES OF DOWNSIZING

For many people approaching or in retirement, turning a property asset into one that creates tax-effective income could help underpin a more comfortable late-life lifestyle. The Government's new Downsizer Contributions option became available on 1 July 2018. It could make this downsizing strategy more effective than ever before.

If you're over 65, and have a property you've owned for 10 years, you may be eligible to turn some of that property asset into a superannuation asset – and enjoy many of the extremely valuable superannuation tax benefits that accrue.

For many people it will be one of the most effective ways to turn a substantial but illiquid asset – property – into one that can generate highly tax effective income for you in retirement.

Here are some of the key parameters of "Downsizer Contributions":

- You must be 65 or over at the time you make the contribution. You can contribute up to $300,000 of the proceeds of sale of the property. Importantly, that cap is individual – so you and your spouse/partner each could potentially contribute up to that cap (even if they're not on title).
- Downsizer contributions can make a big difference to the overall size of your super portfolio – importantly, they don't count against the non-concessional (after-tax) or concessional (pre-tax) contribution caps affecting most other contributions to super. And you can make a Downsizer Contribution even if you have a 'total super balance' exceeding the $1.6 million cap introduced on 1 July 2017.
- To make this contribution even more attractive, you don't have to satisfy the Work Test to contribute that money into your super fund.

THE BIG BENEFIT?

The most important advantage that assets held in super have over other assets lies in the tax treatment. Earnings on super assets are taxed at up to 15% (nil where those assets support a retirement phase income stream, such as an account-based pension), as opposed to an individual's marginal tax rate. Once a person reaches age 60, payments from the their super fund will generally be tax-free in their hands.

Getting as much capital as possible into the tax-effective super/retirement system is the most significant benefit of the Downsizer Contribution.

THINKING IT THROUGH

There are several other valuable benefits to be had from utilising Downsizer Contributions – including the opportunity to spread capital between two members of a couple. You can also potentially reduce the tax payable on the death benefits paid to your children when you pass on.

As you can imagine, a strategy that's as potentially beneficial as Downsizer Contributions has some strict conditions around eligibility and timing. It's also important to understand how it interacts with other issues – such as your tax strategy, estate planning, investment strategy and Social Security eligibility. Depending on your situation you may want to discuss the strategy and its implications with your children as well as your partner.

WE'RE HERE TO HELP

To make the most of this retirement planning opportunity a discussion with your financial adviser and accountant may well be called for.

To find out how we can help you, please call Tony Mastromanno – Senior Adviser on 03 8628 0581 or email him at tony.mastromanno@perpetual.com.au

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