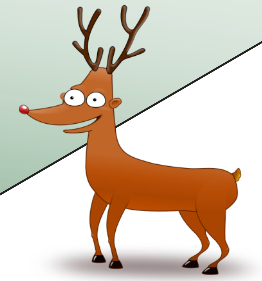
Jul 25th 2017 No 5

Bucks & *Dough*

IDEAS, NEWS AND THOUGHTS TO BUILD YOUR MONEY KNOWLEDGE



Downsizing your home and the 2017 Budget

In May this year the Treasurer released the budget for 2017/18 and one of the proposals was to allow an individual who is over 65 years of age to make a non-concessional (after tax) contribution to superannuation of up to $300,000 from the proceeds of the sale of their home. The rule applies from 1st July 2018 and to the sale of your principal residence which you have owned for more than the past 10 years.

The contribution will apply to both partners hence $600,000 could be contributed from the sale of the same house. These contributions are allowed in addition to the existing rules of non concessional contribution of $100,000 per annum and the new $1.6million total superannuation balance test on contributions. The age test and work test are also not taken into consideration when making these contributions however once the contribution has been made then the proceeds will then become assessable for Centrelink Age Pension tests. This last fact will probably be one of the biggest factors to be considered when downsizing as many people downsize to free up capital to provide additional income but they will be concerned if it then means a reduction of any Age Pension entitlements.

Currently the family home is not assessable for Age Pension and therefore you could have a $2 million home but not much else and be eligible for a full age pension but once the house is sold the proceeds will become assessable whether they are in the bank or a superannuation pension arrangement. The full age pension is currently around $34,000 for a couple per annum and to generate this kind of income safely like in an annuity for life you would need an investment close to $1million. There have been several reports covered in the media recently showing that once your investments total over $400,000 the benefit of your investment is diminished by the loss of age pension and you are not actually in front until your investments total over the million dollar mark. Where is the incentive to save for our retirement? The new sharper taper of the age pension tests is causing a change in attitudes and no doubt serious problems for future Governments.

Paying down mortgages and debt with the proceeds from downsizing will assist cash flow and as the money has not been put into an investment it will generally not impact on the age pension.

Not everyone of course downsizes to free up capital for income purposes it could be simply to have a smaller home to look after with lower maintenance as we get older. Be careful obviously of the transactional costs involved of selling and buying and could you be better off by splitting the home into smaller residences by clever design and profit from the rental opportunities?

There is no rule to say when you should downsize. Should you do it before you need the money (or for health/mobility reasons) or wait to see if it becomes a necessity? The answer will be dependent on a number of variables but generally if you are selling and buying then you are transacting in the same market unless there is big divergence between say houses and apartments. Currently the market here in Canberra is showing increasing house prices and stagnant or negative growth in apartments, which for someone downsizing is the right trend but for how long will this be the case? You also may want to delay the process until necessary if you are the sort of person that spends money as soon as you have it!

Ideally selling first before buying ensures you have sufficient funds for the new home and you are not caught owning two properties. Renting for awhile allows you time to search and find a suitable home at a good price. If you are renting then the proceeds from the sale need to be in very low risk investment to ensure no losses are incurred before the money is required.

The alternative to downsizing or perhaps splitting your home is the ability to use a reverse mortgage loan or a home reversion scheme to free up equity to increase cash flow. There are various types and multiple products available and these strategies will be the topic of a future newsletter. For further information in the meantime follow this link to the MoneySmart website which is a great source of information.

https://www.moneysmart.gov.au/superannuation-and-retirement/income-sources-in-retirement/home-equity-release

Still confused? Book an appointment with me to find out more.

Cheers Mal

Disclaimer:

- Before acting on any information, consider the facts and appropriateness having regard to your own personal objectives, financial situation and needs before making any decisions.
- Before relying on any material or information provided you should independently verify its accuracy, currency, completeness and relevance for your purposes. The information is not made available for the purpose of rendering professional advice. You should seek independent professional advice in relation to your particular circumstances before acting on the information