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Your Super House

By Theo Marinis

Canberra has a great reputation for slamming the door on the perceived over generosity of a particular policy – only to inadvertently open another two. Just consider the opportunity housing now provides since the introduction of the $1.6 million super Transfer Balance Cap.

Traditionally, I've advocated that the 'perfect' position is debt free home ownership at age 65 and (if possible) as a couple to aim to have $3.2m in super. This will provide an **indexed,** minimum annual tax-free income of $160,000 a year to play with for some considerable time (at least for the remaining years!) … a very favourable outcome.

Whilst not everyone has the potential to get near the $1.6 million super Transfer Balance Cap (TBC) it is my belief that we should (to paraphrase Norman Vincent Peale) "aim for the moon … even if we miss, we will be amongst the stars."

Further, the opposite is also true – with some very successful people now needing advice on how to maximise their investment returns in a tax effective manner, once the cap has been reached.

Scott Morrison's budgetary 'brainwave' two years ago to cap super at $1.6m per individual has left many hard-working people stranded midway through a sensible superannuation strategy. They are not certain what they can do to 'fix' their retirement savings issues.

And the projected carnage on investment properties, which is likely given a new ALP government proposed negative gearing and Capital Gains Tax (CGT) policy changes, will send shivers down the spine of already jittery investors.

All of this leaves rational people wondering about what strategies they can use to grow and preserve their wealth.

Canberra has given those amongst us who are over 65 a free kick to downsize our homes.

A couple can now each contribute up to a tax free $300,000 extra from the sale of their home to fund retirement, which is a logical outcome. At a conservative 5% pa return, that could mean an extra $30,000 pa for the couple to spend during retirement – although the ASX real return over the last 30 years for has been almost double that.

There is a catch – you must have owned the house for a decade. Therefore, a strategy for those between 50 and 54 years of age might be to consider upgrading to a highly desirable suburb and staying put for the next 10 years to take advantage of this largess, while also enjoying a fantastic tax-free capital gain. Bear in mind though, that this age range can also be the career 'death zone' where many successful people are made redundant or retire early. Mortgages should be avoided.

Another approach to fixing the gap is to consider using any taxable investments to significantly upgrade the family home, or move into a much better house once the magic $1.6 million in superannuation has been achieved. No political party in peacetime, in my view, would risk removing the capital gains tax-free status on the family home. So, this is fantastic way of generating tax free gains.

But it presents an interesting conundrum – at a time when people traditionally downsize, it may very well be a significant advantage (or an estate advantage) to upsize the home. And it may well be a great opportunity at the moment, particularly where housing prices are on the decline.

My view as an economist, however, is that the housing downturn is temporary (market downturns are generally always temporary, as are the market good times). The global economy is just doing too well at the moment to allow this downturn in housing to continue, despite the rhetoric to the alternative.

Such an approach, therefore, is principally a Melbourne and Sydney strategy – given the ridiculous housing prices paid in elite suburbs – but there may also be significant opportunities in the other capital cities.

A couple aged over 60 with more than $3.2m in super may benefit significantly by withdrawing their excess above the $3.2 Million combined TBC threshold and use that capital it to buy a larger home in say, Toorak or Potts Point – or massively increase the capital value of where they already live. Over time, the (tax-free) value of the property, based on historical experience, will increase, turbocharging their estate, **as super did prior to the $1.6 million super TBC!**

The following, actual client example outlines a strategy recently employed by an eastern seaboard-based couple **(details shared with their permission):**

Their free-hold family home was built pre-September 1985, which means that their home is not subject to capital gains tax, and will remain CGT free, even if they no longer live in it, ever again!

This home is much loved (it is where they raised their children and grand-children) and they were reluctant to sell it to upgrade.

With $7 million in their SMSF ($3.8 million of that in excess of their combined TBC threshold and subject to income tax and CGT within their SMSF since 1 July 2017 – courtesy of the ill-considered and retrospective TBC legislation) they have decided to purchase a new principal residence.

Their new home, a brand-new beach front property with a purchase price of $4 million, will be funded from their $3.8 million SMSF excess benefit. They are both over age 60, and their super withdrawal is tax exempt. As their nominated principal residence, the new property will be CGT exempt (regardless of when it is purchased) as will their former home which they will retain as a second "city" residence.

Whilst their former home will now be subject to land tax, withdrawing the $3.8 million excess from their SMSF will save them approximately $28,500 pa in tax (ie $3.8 million x estimated income 5% pa x 15% Super fund tax).

Add to that the fact that should they decide to at some later point to sell either or both properties, **all** sale proceeds will be **100% CGT exempt**. In addition, they still have $3.2 million retained in their SMSF, providing them as a minimum, $160,000 pa 100% **tax free** retirement income, not to mention the use of two beautiful homes.

Depending on which property they later sell, **at that time**, they may be able to top up their super balances, to the tune of $300,000 each!

For those who came late to the super party, or who were not lucky enough through health or personal circumstances to have built a decent superannuation asset, there is also the option for home-owners to access a reverse mortgage.

Whilst I am not a huge fan of these products due to the rate of interest charged by the banks, they do provide a service, particularly at a time when we should all have the dignity of a reasonable income, before settling into retirement care.

There is also the more attractive, but little-known Pension Loan Scheme offered by the federal government, whereby home-owning age pensioners can supplement their income with additional age pension payments from Centrelink. The interest rate is 5.25% pa (versus the banking industry's average of 8.5% pa) with no establishment or monthly fees.

It is vital to note that reverse mortgages and the government Pension Loan Scheme must be repaid (including the capitalised interest on these loan amounts) whenever the property is eventually sold.

Nevertheless, current reality reinforces my long-held view that despite constant government meddling with the rules, super remains the BEST place to invest (***<u>as much as you can</u>*** afford to) up to the ill-considered legislated $1.6 million TBC per person. This is a vital pillar for a happy retirement.

And as we also all need to live somewhere, the other pillar of a happy and comfortable retirement is the ability to fund a suitable home.

Having BOTH these assets covered will provide access to strategies to move funds between super and your home – and even back to super (thanks to the new Downsizer super contribution rules) and ensure with some careful planning that you have the BEST retirement possible.

Maybe the constant government tinkering is a good thing after all. It helps us to think outside the box!

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