Understanding the First Home Super Saver scheme

The First Home Super Saver scheme allows you to save money in your super for a deposit to purchase your first home. The scheme taps into super's tax breaks to give your deposit a healthy boost.

What you'll find in this fact sheet:

1. An overview of how the scheme works
2. What are the tax savings?
3. Am I eligible?
4. How much can I save for a deposit?
5. How do I access my deposit savings?
6. What happens if I don't buy a new home with the money?
7. What else do I need to consider?
8. Pros and cons

1 An overview of how the scheme works

The new First Home Super Saver (FHSS) scheme allows you to voluntarily contribute up to $30,000 to your super and withdraw this amount (plus earnings, less tax) to buy your first home. Voluntary contributions include before-tax contributions, such as salary sacrifice, and after-tax contributions.

The good part is that because you're saving through super, you pay less tax than saving outside super, which means you can build a bigger deposit more quickly. If you're a couple, you can both use the scheme so you could double the amount you save to $60,000.

From 1 July 2017 you could make additional voluntary concessional (before-tax) and non-concessional (after-tax) contributions into your super fund, to save for a deposit on your first home.

2 What are the tax savings?

Before-tax contributions are taxed at 15% in super, whereas when you save outside super you pay tax at your marginal rate (up to 48.5%).

After-tax contributions, which have already been taxed outside super, are not taxed again inside super.

To show you how much tax you could save, take a look at the following example.

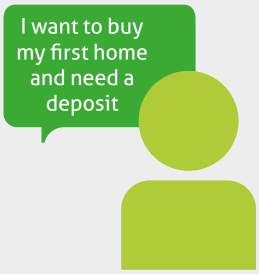
Example

Lee earns $85,000 a year, which means her marginal tax over $37,000 is 34.5%, including Medicare Levy. If Lee saves $5,000 outside super, she pays 34.5 cents in tax for every dollar, or $1,725. By contributing the $5,000 to super, however, there are tax benefits. Firstly, she only pays 15% tax on the contributions that she makes to super, not 34.5%. This means the $5,000 inside super would attract tax of $750, instead of $1,725. That's a difference of $975, simply by moving the savings into super.

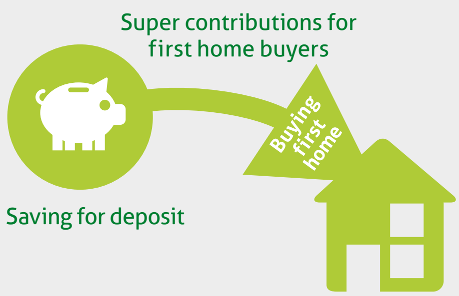
What about tax on the way out?

Like most super savings, tax is payable on the way out. But when it comes to withdrawing the FHSS savings, there's a 30% tax offset. This means that when Lee releases or withdraws her contributions, she will be taxed at her marginal rate of 32.5%, plus the Medicare Levy (2%), less a 30% tax offset. So in total, she will pay another 4.5% tax when she withdraws her savings plus any earnings, as calculated by the ATO.

How it works



Saving through super	Savings outside super
Salary sacrifice (before-tax) **$10,000** into super per year	Invest **$10,000** per year (equivalent before-tax amount) into a term deposit
After-tax savings **$8,500** per year	After-tax savings **$6,441** per year
Savings after 3 years **$25,758**[1]	Savings after 3 years **$19,519**[1]
Additional amount saved through super	**$6,239**



[1] Based on a salary of $60,000 with $10,000 ($8,500 after contributions tax) saved each year for 3 years. Savings includes a deemed earning rate less tax on withdrawal at marginal tax rate less 30%.

3 Am I eligible?

To qualify, you must:

- be over 18 years of age
- have not previously owned property in Australia, unless the Australian Taxation Office (ATO) deems you have suffered financial hardship
- live or intend to live in the premises you are buying as soon as practicable after purchase, or live in the property for at least six months of the first 12 months you own it
- only use the scheme once, which means you can only make one withdrawal from super, to be used as a deposit for your home.

4 How much can I save for a deposit?

Contributions are capped at $15,000 per year and the lifetime maximum you can save through the scheme is $30,000.

This means even if you make voluntary contributions of more than $15,000 in a year, only $15,000 can be counted towards the scheme. And once you reach $30,000 you can still make voluntary contributions, but they won't count towards the scheme.

These contributions, plus any others you or your employer make, must fall within the annual contribution limits for the year, which for 2018-2019 are:

- $25,000 for before-tax (concessional) contributions
- $100,000 for after-tax (non-concessional) contributions.

Example

Monica is saving towards a deposit and wants to buy a new home in 2 years' time. She contributes:

- $25,000 in Year 1 ($15,000 counted towards FHSS scheme) and
- $5,000 in Year 2 ($5,000 counted towards FHSS scheme).

At the end of the second year Monica can withdraw $20,000 for her deposit, not the $30,000 she has contributed in total. That's because $15,000 counts towards the scheme in Year 1 and $5,000 in Year 2.

5 How do I access my savings?

From 1 July 2018 you can apply to the ATO to request a FHSS 'determination'. The ATO is responsible for deciding what counts towards the scheme.

Step 1

Apply to the ATO to withdraw your contributions . You can apply online using your MyGov account linked to the ATO.

The ATO will advise us of the amount that can be released when you apply to withdraw your FHSS savings and you will receive a 'determination' from the ATO, which tells you how much you can withdraw.

It is important to note that you can only use the scheme once, which means you can only request one amount to be released that will go towards your deposit. However, you may have more than one super fund, which you withdraw FHSS contributions from.

Step 2

The ATO will issue a release authority to us to send your FHSS withdrawal amount to the ATO.

The ATO will advise us of the amount that can be released when you apply to withdraw your FHSS savings and you will receive a 'determination' from the ATO, which tells you how much you can withdraw.

It will take approximately 25 business days for us to release your money and for the ATO to pay it to you.

Before the ATO send the balance of the released amount to you they will:

- withhold the appropriate amount of tax
- offset the remaining amount against any outstanding Commonwealth debts.

The released amount is adjusted for contributions tax by the ATO, which means you are eligible to receive:

- 85% of the before-tax contributions you've made
- 100% of the after-tax contributions you've made.

plus

associated earnings determined by the ATO: 3% on top of the 90-day bank bill interest rate,

less

tax equal to your marginal tax rate, plus the Medicare Levy (2%), less 30% tax offset. If the ATO is unable to estimate your expected marginal tax rate, withholding tax of 17% will be applied.

Step 3

A payment summary will be sent to you showing your assessable FHSS released amount.

This amount comprises your before-tax contributions and the associated earnings on before-tax and after-tax contributions. You will need to include this amount as assessable income in your personal tax return for the financial year you request the release. Remember, the tax payable on this assessable amount will receive a 30% tax offset.

First Home Super Saver Scheme Estimator

The government's online estimator at **www.budget.gov.au/estimator** can help you decide whether participating in the scheme would be worthwhile for you.

6 What happens if I don't buy a new home with the money?

If you don't sign a contract to purchase or build a home within 12 months of accessing your FHSS contributions, you can either:

- apply for an extension of 12 months from the ATO
- recontribute the money into your super, or
- keep the money, but it will be subject to an additional flat tax rate equal to 20% of the assessable FHSS released amount.

7 What else do I need to consider?

It's important to consider whether the scheme is right for you. Before you participate in the scheme you may like to consider:

- The type of home you want to live in. The scheme only allows you to buy 'residential premises' with your savings. This excludes houseboats, motor homes, or any premises that can't be occupied as a residence, such as vacant land, unless it is to build your home.
- Investment earnings on your FHSS amount are calculated by the ATO, not the performance of your super fund.
- Although the before-tax part of the money released to you from the FHSS scheme will be included in your total taxable income, the money will not be included in other income tests by the ATO. This means that withdrawals are not included in the calculation of any repayments you need to make for HECS or HELP debts, or in the income tests used to calculate social security entitlements.
- Couples buying a first home can both use the scheme. Therefore, you could save a combined deposit of $60,000 for your first home.
- You are not able to withdraw:
  - Excess concessional or non-concessional contributions. That is, those that exceed the annual caps of $25,000 and $100,000 respectively
  - Mandated employer contributions, such as Super Guarantee (SG) or other contributions that form part of an industrial award or enterprise agreement
  - Spouse contributions
  - Government co-contributions

8 Pros and cons to consider

PROS

- Tax savings when you save in super
- If you make before-tax (salary sacrifice) contributions to super, it could potentially reduce your taxable income.
- Establishes a discipline for saving, as the money cannot be withdrawn unless it is used for a deposit

CONS

- There are limited purposes once you access the money
- The process to access your money is slower than from a bank
- There is more administration involved with saving in this way

Here to help!

Super can be quite complicated and sometimes you just want to know that you're making the right decisions. Because the right decisions about your super can make a real difference to your financial future.

So if you've got any questions, or you just want the comfort of knowing you're on the right track, getting some advice can help.

StatePlus is our financial planning business and is wholly owned by us. The team at StatePlus can answer simple questions about your super over the phone, or if your situation is more complex, prepare a full financial plan for you. It's all up to you, no obligation. Book online at firststatesuper.com.au/advice or call **1800 620 305** (Monday to Friday 8.15 am to 8.15 pm AEST/AEDT) to arrange an appointment.

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