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First Home Super Saver Scheme update: building on the foundations

We start the new year with headlines of “falling house prices”, but even if prices are set to come down and you keep a close eye on your finances, saving a deposit to buy a home can be difficult. The First Home Super Saver Scheme (FHSSS) – which was announced in the 2017 Federal Budget and has now passed into law – means that you can use superannuation to build your home deposit, and not only if you are buying a first home. Here is an update on FHSSS and other exemptions from which you could benefit.

The FHSSS will allow you to make voluntary superannuation contributions, from 1 July 2017, and later withdraw them, starting from 1 July 2018, to use for a first home deposit.

For many people, the FHSSS will effectively operate to provide a 15% tax saving on money channelled via superannuation for a first home purchase. While the potential tax savings of the scheme will only make a small dent in the major funding required for a home purchase, the potential assistance on offer should not be ignored.

A person with assessable income above $52,000 who has the capacity to salary sacrifice the yearly maximum of $15,000 as a FHSSS contribution can achieve a respectable tax benefit, because they will save 17.5% in tax (plus Medicare levy) on the way into super, and only pay 2.5% (plus Medicare levy) on the FHSSS released amount. However, given that people with taxable incomes below $37,000 have a marginal tax rate of 19% (plus Medicare levy), the tax savings of the FHSSS are diminished for these low-income earners. So, the greatest tax benefit of the scheme will be for people earning between $52,000 and $102,000 who can salary sacrifice $15,000 and stay on the 32.5% marginal tax rate (income between $37,000 and $87,000).

Those with an income above $102,000 can achieve a 22% savings in tax (plus Medicare levy) on the way into super, but will pay 7% (plus Medicare levy) on the released amount.

New law extends the scheme to people suffering “financial hardship”

When the scheme was first proposed, it was limited to apply only to people who were buying their first home.

As part of passing the law to establish the FHSSS, the Senate included an amendment to extend eligibility for the scheme to home buyers who may have previously been homeowners (eg with a past partner) but are suffering “financial hardship”.

The ATO will have the power to decide whether a taxpayer is eligible on these grounds, based on regulations. The Government is yet to release the regulations that will define what constitutes “financial hardship”, but we will keep you updated.

What’s included?

Individuals eligible for the FHSSS can contribute up to $15,000 per year (and $30,000 in total) to their super for the purpose of a first home deposit. Employees can use salary sacrifice arrangements to make pre-tax contributions – but you should keep in mind that any FHSSS amounts you contribute will still count towards your yearly concessional contributions cap.

The yearly concessional cap from 1 July 2017 is $25,000 – that is, your pre-tax contributions of up to $25,000 (including the mandatory super guarantee and any you make under the FHSSS) will be taxed at a “concessional” rate of 15%. Higher tax rates will apply if you exceed the cap.

Importantly, the scheme won’t allow you to withdraw money that you already had in super before 1 July 2017, and any FHSSS amounts you contribute will only be available for release from 1 July 2018.

Who’s eligible?

To be eligible to use the FHSSS you will need to:

- be at least 18 years old; and
- have not used the scheme before and have never owned real property in Australia; or
- qualify as someone who has suffered a “financial hardship” (determined by the ATO), as specified by regulations.

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If you're eligible to use the FHSSS, you won't be disqualified if you are buying a home with someone else (such as your spouse) who isn't a first home buyer.

How does it work?

When you're ready to withdraw an FHSSS amount from your super (on or after 1 July 2018), you will need to apply to the ATO, giving a declaration of your eligibility to buy or build a residence. The ATO will issue a determination and release authority specifying the maximum amount to be withdrawn, then estimate and withhold an amount of tax and release your deposit to you. The maximum withdrawal amount will be 85% of your pre-tax (concessional) contributions. Concessional contribution amounts and associated earnings withdrawn from your super under the FHSSS will count as part of your taxable income, although a 30% tax offset will apply. Amounts released from super under the FHSSS will be excluded from the social security means tests and co-contribution income test.

After the release of your FHSSS amount, you will have 12 months to sign a contract to buy or build residential premises, and 28 days after the contract signing to notify the ATO. Your purchase can include buying vacant land to build on and occupy as your residence. You will need to occupy the residence as soon as is practicable, and for at least six months of the first year after it becomes practicable to do so. For example, if you buy a house-and-land package, you will need to occupy the house for at least six months in the first 12 months after it is built.

Important next steps

If you're saving for your first home and think the FHSSS might be for you, there are a range of factors to consider.

Want to know more? Contact us to discuss the latest super changes and your home deposit savings plan.

A super account isn't a capital-guaranteed bank account, so your returns might vary. It's important to look closely at your fund's investment strategy and be aware of the risks involved with adding the money for your home purchase to your super fund.

It's also crucial to plan ahead, because any salary sacrificing to your super will need to be arranged prospectively. The various potential taxing points in the scheme mean that your personal finances and circumstances may affect whether using it to save your deposit would give you a useful tax saving.

Financial advice from your accountant

Are you in the market for some general financial advice about superannuation or simple managed investment schemes? Well, you don't necessarily have to see a financial adviser. Depending on the circumstances, your accountant could help you with what you need in addition to taking care of your tax return.

Accountants who are limited Australian financial services (AFS) licensees or representatives of limited licensees can give certain financial advice to their clients. This means you could potentially save time and money by getting your tax, accounting and financial advice in the same place.

A limited AFS licensee can provide financial services including:

- advice on specific superannuation products, in relation to your existing holding for the purposes of making a recommendation to establish a self managed super fund (SMSF), or to provide advice about contributions or pensions under superannuation products;
- "class of product" advice in relation to superannuation products, securities, general insurance, life risk insurance, basic deposit products and simple managed investment schemes;
- arranging for another person to deal in interests in SMSFs, including applying for, acquiring, varying, issuing or disposing of interests on behalf of another.

The class of product advice a limited AFS licensee or their representative may be able to provide doesn't include making recommendations for specific financial products. While this means that a limited licensee can't recommend that you put your money into a specific term deposit with a specific bank, for example, they can recommend in general whether putting your money into a term deposit is a suitable option, based on your current financial circumstances.

Limited AFS licensees or representatives of licensees may be limited to providing advice to particular categories of clients. Some may only be authorised to advise retail clients, while others can offer advice to wholesale clients, and some may be authorised to provide advice to both types. When advising retail clients, a limited licensee must prepare and give a financial services guide (FSG) as well as a statement of advice (SOA).

Crucially, the FSG will contain information to enable you to decide whether to obtain services from the limited licensee, such as your accountant. The SOA is there to help you understand and decide whether to rely on the advice you've received.

Limited AFS licensees have ongoing licensing obligations and are regulated by the Australian Securities and Investments Commission (ASIC), just like financial advisers with full AFS licenses. Limited licensees also have certain obligations to you as a client. They must act in your best interests, provide appropriate advice, warn you when the advice is based on incomplete or inaccurate information and give priority to your interests.

If you think advice from a limited AFS licensee could be useful for you, contact us today to find out more. You could soon be getting advice from a familiar face that you trust, without having explain your financial situation from scratch.