Entrust

First Home Super Saver Scheme

With housing affordability presenting challenges in many parts around the country, the First Home Super Saver (FHSS) scheme allows eligible individuals to utilise superannuation to save some of the money required for a home deposit. The premise of the Government initiative is to assist buyers to accelerate their savings within the concessional environment of super. We outline some of the important rules and considerations.

The FHSS scheme was first announced as part of the 2017-2018 Federal Budget. The legislation allows the release of voluntary superannuation contributions up to certain limits, along with associated earnings. Contributions from 1 July 2017 can count towards the scheme. As with any strategy that involves superannuation, it is important to adhere to the various regulations.

Who is eligible?

A member is required to be 18 years or older to request a release of funds under this scheme. Also, the member must not have previously received a payment under the scheme and never owned property in Australia (including freehold or lease of land). As a first home buyer, you can use this scheme if:

- The property/premises is situated in Australia
- You either live in the premises you are buying, or intend to as soon as practicable
- You intend to live in the property for at least six months within the first 12 months you own it, after it is practical to move in.

As eligibility is assessed on an individual basis, joint/multiple parties can access the scheme with respect to the same property. Additional provisions may apply for members that have experienced financial hardship.

Contributions & Release Limits

You are not required to notify the super fund that the purpose of the voluntary contributions will be for future use of the scheme. However, members should review their super fund to check whether the eligible voluntary contributions are acceptable. Notably, defined benefit funds and constitutionally protected funds are precluded.

Employer super guarantee is excluding from the calculation of the FHSS amount. Voluntary contributions include salary sacrifice, tax-deductible contributions and non-concessional (after-tax) amounts. The maximum voluntary amounts a member can release from super under the scheme is:

- $15,000 per financial year,
- $30,000 in total across all years.

The normal contributions limits apply (with 15% contributions tax payable on concessional contributions such as salary sacrifice and tax-deductible amounts).

Application Process

The scheme is administered by the ATO, which determines the amount of contributions that can be paid out to an individual. You must apply for and receive an FHSS determination before signing a home contract or applying for the release of funds from super. The ATO applies 'ordering rules' across different contribution types designed to maximise the amount available for release.

Once the determination has come through, you can request the funds be released. The payment flows from the super fund to the ATO and the ATO will withhold tax on the amount before providing the net amount to the member.

Once processed, the member must purchase a home or sign a contract to build a house within 12 months and keep the ATO abreast of such arrangements (i.e. notify within 28 days of signing the contract). This 12 month period can be extended - otherwise the amount released can be re-contributed or additional tax (a flat 20%) is paid to maintain the funds outside of superannuation.

Tax Upon Exit

The FHSS release amount that is eventually withdrawn from super for the purchase, together with an amount of earnings, will be subject to withholding tax at the member's marginal tax rate, less a 30% tax offset. Associated earnings are calculated using a deemed rate of return (based on the 90-day Bank Bill rate plus 3%). This amount plus the FHSS amount are included in the tax return for the year of the release.

Potential Changes

It is important to note that the 2021-22 Federal Budget included a proposal to increase the maximum release amount to $50,000. If this updated proposal is legislated, this will apply to requests made after 1 July 2022. No change is set to apply to the amount that can be released in one year (being $15,000).

Conclusion

The potential benefit of saving money in superannuation comes down to the lower tax rates (i.e. a maximum of 15%). Despite the potential tax advantages, the First Home Super Saver scheme involves a number of steps. Please contact us if you wish for specific advice around determining whether the FHSS scheme is a suitable option to save for a home deposit.

Disclaimer