Financial Planning

How you can use Super to buy your first home

From 1 July 2018, individuals can use certain additional superannuation savings to help buy their first home in an effort to make the housing market more accessible for aspiring new entrants.

Under the governments recently legislated First Home Super Saver Scheme (FHSSS), individuals can, from 1 July 2017, make voluntary contributions to their super account to save to purchase a first home.

Tax advantages around super
Voluntary concessional (pre-tax) contributions made by clients under the scheme are in most cases taxed at 15 per cent rather than the person's marginal tax rate. Net contributions subject to the limit of $15,000 from any one financial year or $30,000 in total, plus an associated earnings amount, may be withdrawn for a deposit towards buying a first home. Withdrawals (with the exception of after tax contributions) will be taxed at marginal tax rates less a 30 per cent offset and are allowed from 1 July 2018.

For example, this means a taxpayer on the 37 per cent tax rate with an income between $87,000 and $180,000 would pay 7 per cent (plus Medicare levy) on the withdrawn amount (assuming they had only made pre-tax contributions). And while any pre-tax super contributions have also been taxed at 15 per cent, the effective tax rate is less than the taxpayer's applicable marginal tax rate.

By making voluntary pre-tax contributions, and taking advantage of the FHSSS tax arrangements around super, the government calculates that over three years a couple could save an extra $12,480 more for a home than if they had put their savings into a regular bank account.[1]

The scheme, which was first announced in the 2017 Federal Budget, is intended to help Australians increase their savings for their first home by allowing them to build a deposit inside superannuation.

A deposit savings booster
For most people the FHSSS could boost the savings they can put towards a deposit by at least 30 per cent compared with saving through a standard deposit account, according to the government. This is due to the concessional tax treatment of superannuation and the higher rate of earnings generally realised in superannuation than that offered by a standard deposit account.

Many employees may be able to use salary sacrifice arrangements to make pre-tax contributions. Individuals who are self-employed or whose employers do not offer salary sacrifice may be able to claim a tax deduction on personal contributions, meaning savings effectively come out of pre-tax income.

The amount of associated earnings that can be released will be calculated using a deemed rate of return based on the 90-day bank bill rate plus three percentage points (consistent with the shortfall interest charge).

The FHSSS is administered by the Australian Taxation Office (ATO), which will determine the amount that can be released and instruct superannuation funds to make these payments accordingly.

Know your limits
Voluntary contributions under this scheme must be made within existing superannuation contribution caps.

The total concessional contributions an individual can make before extra tax applies, from both compulsory employer contributions and voluntary concessional contributions, including those made under the scheme cannot exceed $25,000 per annum.

Using the released amount

First-home buyers generally only have 12 months to sign a contract to purchase or construct a home or the assessable released amount needs to be recontributed as a non-concessional contribution to their super fund. If the money is not recontributed in time, they face a 20 per cent penalty tax.

How can the FHSSS benefit you?

To better understand the advantages of saving for a home deposit through superannuation, use the government's online estimator or speak to a financial planner.

[1] The government's online estimator assumes that contributions are made from 2017-18, and accounts for announced future changes in the rates of the taxes modelled. Taxable income and salary sacrifice amounts are held constant over time. When calculating the amount available for withdrawal, the estimator assumes that contributions are made each year until reaching the $30,000 limit on pre-tax contributions that can be subsequently withdrawn under the scheme. The interest rate paid on savings in a deposit account is assumed to be fixed at 2 per cent per annum (this reflects average retail deposit rates in April 2017). The deemed earnings rate applied to savings in superannuation is fixed at the shortfall interest charge (SIC) rate for April to June 2017 (4.78 per cent per annum).

See these stories and more at eldersgroupsender.feedsynews.com

Elders Financial Planning
eldersfinancialplanning.com.au
advisor.services@elders.com.au
1800 060 741