Editorial

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Saving for a first home is now easier

First-home buyers can now use their super to save for a house deposit, thanks to the First Home Super Saver scheme.

Exorbitant property prices have made entering the market a pipe dream for many first-home buyers. They need to find more than $175,000 for a 20 per cent deposit to buy a house in Sydney at the median value of $878,325, according to CoreLogic data.[1]

This is why the passing of the legislation for the First Home Super Saver scheme in December 2017 has been a welcome development, as it helps prospective buyers get into the property market. So how does the scheme work?

How it works

The scheme helps you save for your first home by allowing you to use the concessionally taxed superannuation environment to build a house deposit. Eligible voluntary contributions are limited to $15,000 in any one financial year and $30,000 across all financial years. They include:

- Voluntary concessional – these contributions include salary sacrifice amounts and personal deductible contributions. They exclude excess concessional contributions and any mandated contributions.
- Voluntary non-concessional – these are contributions for which no tax deduction has been claimed.

Starting 1 July 2018, you can withdraw eligible contributions that you made from 1 July 2017 – plus associated earnings – to buy or build a first home.

100 per cent of eligible non-concessional contributions and 85 per cent of eligible concessional contributions may be released. If you make both voluntary non-concessional and voluntary concessional contributions in the same financial year, the non-concessional contributions will be treated as having been made first. This can help you maximise the size of the deposit available.

Who is eligible for fund release?

To be eligible to have your contributions released, you must be aged at least 18 and must not have owned property in Australia or asked the Commissioner of Taxation to release funds previously under the scheme. If you have owned property, you may still qualify if the Commissioner determines that you have suffered a financial difficulty that led to the loss of your property.

The Australian Taxation Office will assess eligibility to withdraw contributions on an individual basis. This means you and your partner or a family member may each apply for a release of contributions to buy the same property.
Once your super fund releases your contributions, the Commissioner of Taxation will withhold tax at your marginal tax rate, less a 30 per cent offset. You will need to declare the amount you receive in your tax return for the financial year you request the release.

You have up to 12 months from the time you receive the first amount to sign a contract to buy or build a house. If you need more time, you may apply for an extension of up to 12 months. You will need to recontribute an amount back to your super if you fail to enter into a contract after this period – otherwise the Commissioner of Taxation will impose 20 per cent tax.

Professional advice

It's important to know the various and complex taxation and other implications of withdrawing your voluntary contributions through the First Home Super Saver scheme. Seeking advice from a professional financial adviser can help you understand these and discuss with you the pros and cons of the scheme according to your circumstances.

[1] CoreLogic, 'Australian dwelling values hold firm in March with regional values recording a 0.4% rise, helping to offset a 0.2% fall across the combined capital city markets'. Accessible at: https://www.corelogic.com.au/sites/default/files/2018-04/2018-04--CL_Hedonic_Home_Value_IndexApril.pdf.