To help more first home buyers get into the property market, the Government has introduced a First Home Super Saver (FHSS) Scheme.

The FHSS Scheme allows you to access voluntary contributions (before or after tax) you’ve made to your super, to use for your first home deposit. You can contribute up to $15,000 per financial year, up to a total of $30,000. The main benefits of the scheme are taking advantage of reduced tax rates through super and potentially higher earnings on your savings – which all helps in saving up for a deposit!

Are you eligible?

You may be eligible for the scheme if you:

- have never owned property or land in Australia,
- intend on purchasing a property for residential purposes (for example, it can’t be a houseboat, motor home or investment property),
- intend on living in the property for at least 6 of the first 12 months you own the property, and
- have not previously withdrawn funds as part of the scheme.

You’ll also need to be 18 or over to apply to access any savings under the scheme.

How does it work?

Any voluntary contributions you’ve made into your super since 1 July 2017 could be eligible savings as part of the scheme – there’s no need to open a separate account. Any before-tax contributions (for example, salary sacrifice) will be taxed at 15% on the way in, and any investment earnings on these contributions will also be taxed at 15%.

You may be able to withdraw these funds by applying to the Australian Taxation Office (ATO). Once determining you’re eligible, the ATO will arrange for your money to be paid to you from your super fund.

When your savings are withdrawn from super, any before-tax contributions and earnings will be taxed at your marginal tax rate less a 30% tax offset. If you made any contributions from your after-tax income, no tax will be deducted on these contributions.

You then have 12 months to sign a contract – but if you need more time to sign the contract the ATO will automatically grant you an extension of 12 months.

You’ll also need to include the released amount as assessable income in your tax return for the financial year in which you applied to the ATO.

If you change your mind and don’t end up purchasing a home, you’ll have the option of putting the money back into super, or paying an amount of tax that will clear any tax benefit you received as part of contributing to the scheme.
Case study
John earns $70,000 a year and has decided to salary sacrifice $10,000 of his wages into super each year to help save for his first home deposit. This will reduce his take home pay by only $6,550 as he is contributing to super from his before tax income.

This case study assumes an interest rate of 4.54% (July to September 2019 Shortfall Interest Charge) on super account earnings, with 2019/20 personal tax rates and 15% contribution tax on Super contributions. An interest rate of 1.95% was used to calculate deposit account earnings. This example assumes savings via super or deposit are made monthly, and no allowance has been made for inflation.

<table>
<thead>
<tr>
<th></th>
<th>Saving through super with the FHSS scheme</th>
<th>Saving through a standard deposit account</th>
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<tbody>
<tr>
<td>1st year of savings</td>
<td>$8,285</td>
<td>$6,590</td>
</tr>
<tr>
<td>2nd year of savings</td>
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<td>$13,266</td>
</tr>
<tr>
<td>3rd year of savings</td>
<td>$26,023</td>
<td>$20,027</td>
</tr>
</tbody>
</table>

After 3 years that’s an extra $5,996

What’s the benefits of the scheme?

✓ Tax savings. Before-tax contributions into super (for example, through salary sacrificing) will be taxed at 15%. For most people, this will be less than their marginal tax rate – which could be up to 45% plus the Medicare levy.

✓ Potentially higher earnings on your savings. You might earn a higher return on your savings if the deemed rate (determined by the ATO) is higher than what you’d get in your regular savings account or term deposit. The deemed rate for the quarter ending June 2019 is 4.96%. The current deemed rate, also known as the shortfall interest charge can be accessed on the ATO’s website.

Things to consider

✓ Are you on a lower income? A benefit of the scheme is taking advantage of the lower tax rates through super to boost your savings. If you’re in a lower income bracket where you pay little to no tax, you may want to consider whether this is suitable for you.

✓ Normal super contribution limits still apply. The most you can contribute to super from your before-tax income is $25,000 (which includes employer contributions), and $100,000 from your after-tax income. Although you can contribute up to $15,000 per year under the scheme, make sure you don’t go over these maximums as tax penalties may apply.

✓ You’ll still have to pay tax on the way out. Your before-tax contributions and earnings will be taxed at your marginal tax rate, minus a 30% tax offset.

✓ Investment returns are deemed by the ATO, not based on your fund’s performance. The earnings on your contributions will be calculated by the ATO on a deemed rate based on a 90-day Bank Bill Rate plus 3% – which could be higher or lower than what you could earn outside of super.

✓ Speak with your lender to confirm what is considered to be ‘genuine savings’. When you apply for a home loan, lenders like to see a history of regular contributions into a savings account. It’s a good idea to check they see FHSS savings as genuine savings before opting into the scheme.

For more information on the FHSS scheme, visit the ATO’s website at ato.gov.au/FHSS

We’re here to help

You don’t need to work things out alone. If you want some help in working out whether this scheme suits your circumstances, you can speak to one of our qualified financial advisers over the phone. This service is included as part of your membership.

Visit cbussuper.com.au/getadvice for more details, or you can contact us on the details below.

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