

USING SUPER TO BUY YOUR FIRST HOME

Superannuation is designed to help people save for their retirement. So, in most cases you cannot withdraw money from your super until you have retired after the age of 60.

To help first home buyers save a deposit, the Federal Government has introduced the **First Home Super Saver scheme (FHSS)**. This scheme allows you to make voluntary contributions into your super and later withdraw those contributions to effectively boost the deposit when purchasing your first home.

The scheme helps you to save a deposit much more quickly and accumulate a larger deposit when purchasing your first home. Here is how it works.

First Home Super Saver (FHSS)

If you are eligible for the scheme, you can make voluntary concessional (before-tax) or you can make voluntary non-concessional (after-tax) contributions from your take home pay. You can make voluntary contributions up to \$15,000 into your super account each financial year up to a maximum of \$50,000 across all years. Those contributions can be made either as voluntary (after-tax) contributions, or through a salary sacrifice (before-tax) contribution arrangement with your employer.

If a couple are buying their first home and they are both eligible for the scheme, they potentially can make contributions up to \$50,000 each. These contributions could then be withdrawn from their super account. Together with an amount of investment earnings deemed by the Australian Tax Office (ATO) and the general tax concessions available through super, the deposit for their first home will grow larger and faster. The main benefit of the First Home Super Saver Scheme is the potential tax savings. By saving within your super fund, you will be able to take advantage of the favourable tax treatment that applies.

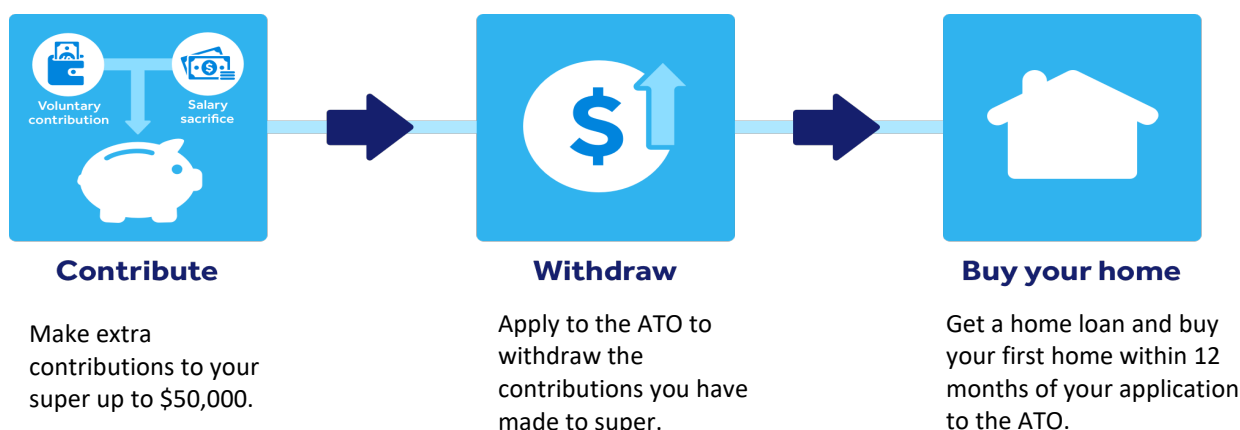
How to qualify under the scheme?

To qualify for the scheme, you must meet certain eligibility requirements. These are shown below

- You must be aged 18 years or older when you make a withdrawal.
- You are a first home buyer, having never owned property in Australia – this includes an investment property, vacant land, commercial property, a lease of land, or a company title interest in land. Your name must be on the title of the property you purchase.
- You have not previously made a FHSS release request.

What type of contributions can you make to your super?

- **Concessional contributions** – these are before-tax contributions made through salary sacrificing, but it does not include Super Guarantee contributions. The current maximum concessional contribution allowed per financial year is \$30,000.
- **Non-concessional contributions** – these are after-tax contributions made from your personal savings. The total non-concessional contribution allowed is \$120,000.



An example: Boosting Madeleine's first home deposit

Madeleine is less than age 60, earns \$60,000 a year and wants to buy her first home. She annually directs \$10,000 of pre-tax 'salary sacrifice' income into her super account. After the deduction of 15% contributions tax on this initial amount, her annual savings are \$8,500.00.

After three years, Madeleine can now withdraw \$25,500 of the voluntary contributions she has made to her super for a deposit on her first home.

Madeleine's withdrawal request will be assessed by the ATO and withholding tax calculated at her marginal tax rate, less a 30% tax offset applied to the withdrawal and the associated investment return. Both the assessable amount and the withholding tax is then declared in her tax return within the financial year in which the release has been granted.

Under the FHSS rules, the ATO will calculate the investment return on the \$25,500 by using the deemed rate of the Shortfall Interest Charge (SIC)#. As at September 2024 quarter, the SIC stood at 7.36%. The SIC is calculated on a daily compounding basis and this interest rate is defined in tax legislation as the 90-day Bank Accepted Bill rate published by the Reserve Bank. This base rate is then uplifted by an additional 3%. It is important to note the SIC rate is not the investment return earned by the super fund.

As a result of the tax concessions available through super and the interest (SIC component) that Madeleine has received, she has boosted her first home deposit and saved much faster than had she used a standard savings bank account.

Resource and reference material

<https://www.ato.gov.au/tax-rates-and-codes/shortfall-interest-charge-rates#ato-HowSICiscalculated>

How do you withdraw funds from super to use as a deposit on your first home?

Once you have saved a deposit and you are ready to buy your first home, you can apply to withdraw the funds from your super account. The best way to do this is through your **MyGov** account.

Some important tips you need to know.

- Voluntary contributions you have made since 1 July 2017 to the super fund are eligible to be included in the FHSS.
- There are limits called Contribution Cap limits on the contributions you can make into super. So be mindful that if you exceed the Caps by making extra contributions, you could be liable to pay additional tax on your super.
- You can only use the scheme to purchase or build residential property in Australia for you to live in as your first home. You cannot buy a motor home or a houseboat.

You must have a FHSS determination before you sign any contract that results in you obtaining an interest in a property, including a contract to purchase vacant land.

In summary, the FHSS is a powerful tool to help make your dream of home ownership a reality.

You will find more detailed information on the FHSS at the Australian Tax office (ATO) website, see link below:

<https://www.ato.gov.au/individuals/super/withdrawing-and-using-your-super/first-home-super-saver-scheme/#AbouttheFHSSscheme>

If you would like a PictureWealth adviser to assist you in any way, do not hesitate to contact us on 1800WELFIE (1800 935 343) or by email at Financialwellness@picturewealth.com

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