Understanding First Home Super Saver scheme

Version 1.1

This document provides some additional information about **First Home Super Saver scheme** discussed in the SOA so that you can understand the benefits of the strategies recommended to you, and the associated costs and risks.

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HOW TO READ THIS DOCUMENT

Managing your finances to meet your day to day requirements as well as your long-term goals can be a complex task. There are all sorts of issues you need to consider such as taxation, legislation, protecting your wealth and assets, associated costs and the inherent risks of investment. When undertaking a financial plan it is important you understand how these issues will impact you and what you should expect over time.

Your financial adviser will provide you with a Statement of Advice (SOA) which sets out the details of the advice and how it will meet your goals and objectives.

This document provides some additional information to help you understand the financial planning concepts discussed in the SOA in relation to **First Home Super Saver Scheme**.

It is very important you read this document to help you understand the benefits of the strategies recommended to you and the associated costs and risks.

Please contact your adviser if you do not understand anything, or need further information or clarification.

Superannuation

The First Home Super Saver (FHSS) scheme is aimed at assisting you to purchase your first home. This is achieved through allowing voluntary contributions to be made to superannuation and subsequently withdrawn to pay a deposit for the first home.

How it works

General eligibility

To be eligible to make contributions and withdrawals from superannuation under the FHSS scheme, you must:

1. not have owned property in Australia before
2. be aged 18 years or older; and
3. have not previously had amount released from superannuation under this scheme.

Never owned property

As this scheme is targeted towards first home buyers, it is a requirement that you have not previously owned a property. This is an interest in any property not just a property that was treated as a main residence. Therefore an interest in property, including an investment or commercial property or interest via a company title, will make you ineligible to use this scheme.

Age requirement

When an amount is released under the FHSS scheme, you must be aged 18 or over. There is no restriction to making voluntary contributions to superannuation under 18. The limitation applies to the withdrawal.

One release request from superannuation

Only one withdrawal can be made from eligible contributions under the scheme.

Eligible contributions

Contributions that can be withdrawn under the FHSS scheme must be voluntary. Voluntary contributions can be either concessional or non-concessional contributions.

Voluntary concessional contributions can be made from pre-tax income (eg salary sacrifice) or contributions for which a deduction has been claimed (personal deductible contributions). Voluntary non-concessional contributions are made from after-tax income you make and no tax deduction is claimed.

A number of contributions to superannuation are not eligible to be withdrawn under the FHSS scheme. Examples include:

- compulsory employer contributions (eg Superannuation Guarantee)
- spouse or child contributions
- voluntary contributions to defined benefit funds or constitutionally protected funds.

The maximum eligible voluntary contributions that count towards the amount that can be withdrawn are:

- $15,000 per financial year, and
- $30,000 in total.

The contributions made in a year must also be within the relevant contribution caps. The caps are intended to limit the amount of tax concessions relating to superannuation. Contribution caps are indexed periodically.

Concessional contributions

Your annual concessional contribution cap is $25,000 and it applies to everyone regardless of age.

Concessional contributions generally consist of contributions made from pre-tax income (such as superannuation guarantee (SG) and salary sacrifice) or contributions for which a deduction has been claimed (personal deductible contributions).

If you exceed your concessional contribution cap, excess contributions are taxed at your marginal tax rate less the 15% tax already deducted within the fund. An interest penalty will also apply. You can withdraw the excess from superannuation so it is not also counted towards the non-concessional contributions cap.

Non-concessional contributions

Non-concessional contributions generally consist of contributions from after-tax income, such as personal non-deductible contributions and spouse contributions.

The annual non-concessional contribution cap for the 2018/19 financial year is $100,000. But if you are under age 65 on 1st of July in a financial year you may be able to trigger the 'bring-forward' rule to make larger contributions.

The 'bring-forward' rule effectively groups contributions over a two or three year period (depending on your total super balance). It allows you to bring forward your non-concessional cap from either the next one or two years, and add it to the current year's cap. But you can only contribute up to a maximum of $300,000 over the three year period (if you're eligible). This rule is particularly useful if you are selling a large asset (such as an investment property) and want to contribute the proceeds into superannuation. The bring-forward rule is automatically triggered if you exceed your annual non-concessional limit. Once triggered, your non-concessional contribution cap will not be indexed for the next two years.

In addition, you must have total superannuation savings of less than $1.6 million at 30 June of the previous financial year to be eligible to make any non-concessional contributions in the following year. As such your non-concessional cap and ability to use the bring forward rule will be limited if your total superannuation savings are more than $1.4 million on the 30 June prior to the financial year in which you trigger the bring-forward rule. These rules are complex so it is important that you get advice.

If you exceed your non-concessional contribution cap, you can choose to have the excess contributions and associated earnings (as calculated by the Tax Office) refunded with penalty tax only applied to the earnings. If not withdrawn, the excess contributions are taxed at the highest marginal tax rate. The tax payable must be withdrawn from superannuation.

Releasing eligible contributions

To have eligible contributions released under the FHSS scheme, you will need to:

1. Apply to the Tax Office to determine the maximum amount that you are eligible to withdraw, and
2. Complete the release authority provided by the Tax Office.

1. Applying to the Tax Office

When you are ready to make the withdrawal under the FHSS scheme, an application is made to the Tax Office. The Tax Office will issue you a FHSS determination. This determination will state the maximum amount of eligible contributions and associated earnings that you are able to withdraw – referred to as the FHSS maximum release value.

The associated earnings as part of the FHSS maximum release value is determined by a legislative formula and does not reflect the actual earnings derived in the superannuation fund.

The maximum release amount will be to the total of:

- eligible non-concessional contributions
- 85% of eligible concessional contributions
- 85% of associated earnings.

As the amount withdrawn is to assist with purchasing your first home, the application to the Tax Office must be done before entering into a contract for purchase or construction.

2. Complete release authority

Once you receive a FHSS determination, you may request the Tax Office to issue your superannuation fund with a release authority for all or part of the maximum release amount.

You are only able to make one request for an amount to be withdrawn.

The amount released by the superannuation fund will be directed to the Tax Office. The Tax Office will withhold any tax (see below) and then provide you with the net amount.

Taxation of released amount

Released eligible non-concessional contributions will be received tax-free. Eligible concessional contributions and associated earnings (earnings on both concessional and non-concessional contributions) withdrawn will be added to your assessable income for the year and taxed at your marginal tax rate less a 30% tax offset. A tax offset reduces tax payable. As the withdrawal will occur during the financial year, the Tax Office will make an estimate of your marginal tax rate. If the ATO cannot complete an estimate, tax will be withheld on the assessable amounts received at 17%.

Amounts received under the FHSS scheme are ignored when calculating a number of benefits and concessions. Examples include:

- Family Tax Benefit A and B
- Commonwealth Seniors Health Care Card
- Medicare levy surcharge
- Government co-contribution.

Use of withdrawn amount

As the scheme is to assist you with the purchase of your first home, the amount withdrawn must be used to enter a contract to purchase or construct your first home within 12 months. The Tax Office has discretion to extend this period for an additional 12 months.

The Tax Office must be notified within 28 days once you have entered into the contract.

Your first home purchased with this money must be occupied by you as soon as it is practical as you need to establish this property as your main residence. You must live there for at least six of the first 12 months.

If you are not able to enter a contract within the 12 months (or Tax Office approved extended period) you have two choices:

1. Recontribute the amount back to superannuation

   If you contribute the amount back to superannuation, the amount will be a non-concessional contribution. This will count towards your non-concessional contribution cap. As a non-concessional contribution you are not able to claim any amount as a tax deduction.

2. Pay the additional FHSS tax

   If you do not wish to contribute the amount into superannuation, you are able to retain this money but are liable for the FHSS tax. This tax is 20% of the assessable FHSS withdrawn amount (ie concessional contributions and associated earnings). This is a flat tax rate.

Additional tax penalties are payable if this tax is not paid within 21 days of receiving the Tax Office notice.

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