Budget 2017

Reducing Pressure on Housing Affordability

First Home Super Saver Scheme

The Government will help Australians boost their savings for their first home by allowing them to build a deposit inside superannuation.

The issue

Australians are entering the housing market later in life than previous generations. With house prices high, difficulty saving a deposit is a key barrier to getting into the market.

The details

From 1 July 2017, individuals can make voluntary contributions of up to $15,000 per year and $30,000 in total, to their superannuation account to purchase a first home. These contributions, which are taxed at 15 per cent, along with deemed earnings, can be withdrawn for a deposit. Withdrawals will be taxed at marginal tax rates less a 30 per cent offset and allowed from 1 July 2018.

For most people, the First Home Super Saver Scheme could boost the savings they can put towards a deposit by at least 30 per cent compared with saving through a standard deposit account. This is due to the concessional tax treatment and the higher rate of earnings often realised within superannuation.

Many employees will be able to take advantage of salary sacrifice arrangements to make pre-tax contributions.

Individuals who are self-employed or whose employers do not offer salary sacrifice can claim a tax deduction on personal contributions, meaning savings effectively come out of pre-tax income.

Voluntary contributions under this scheme must be made within existing superannuation caps. The total concessional contributions an individual can make, from both compulsory employer contributions and voluntary contributions, including those made under the scheme cannot exceed $25,000 in 2017-18.

The amount of 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 (as per the Shortfall Interest Charge).

The First Home Super Saver Scheme will be administered by the ATO, which will determine the amount of contributions that can be released and instruct superannuation funds to make these payments accordingly.

Impact

This measure will assist first home buyers to save a deposit for their home faster.

Budget impact

This measure is estimated to have a cost to revenue of $250 million over the forward estimates.

Boosting Michelle and Nick's first home deposit

Michelle earns $60,000 a year and wants to buy her first home. Using salary sacrifice, she annually directs $10,000 of pre-tax income into her superannuation account, increasing her balance by $8,500 after the contributions tax has been paid by her fund. After three years, she is able to withdraw $27,380 of contributions and deemed earnings on those contributions. Her withdrawal is taxed at her marginal rate (including Medicare levy) less a 30 per cent offset. After paying $1,620 of withdrawal tax she has $25,760 that she can use for her deposit. Michelle has saved around $6,240 more for a deposit than if she had saved in a standard deposit account.

Michelle's partner Nick has the same income and also salary sacrifices $10,000 annually to superannuation over the same period. Together they have $51,520 that they can put towards a deposit, $12,480 more than if they had saved in a standard deposit account.

Questions and answers

How can people understand what benefit they could receive from using this measure?

- The Government is providing an online estimator to help people understand the advantages of saving for a home deposit through superannuation. To access the estimator go to **www.budget.gov.au/estimator.**

How will this scheme be administered?

- The ATO has the primary responsibility for administering the scheme. The ATO will be responsible for determining the eligibility of the person seeking a release and for calculating the release amounts based on information provided by the applicant and superannuation funds. The main responsibility of superannuation funds will be responding to a release request authorised by the ATO.
- The ATO will also be responsible for administering compliance mechanisms to ensure that people purchase their first home after they withdraw from superannuation for their deposit. The Treasury will develop appropriate mechanisms with the ATO, which the Government will consult on before legislating, to deliver integrity while minimising compliance impacts.

Will a release from superannuation for housing that is taxed on withdrawal also trigger a reduction in social security entitlements?

- No. Whilst the concessional part of a release amount will be included in a person's taxable income it will not flow through to other income tests used for other purposes, such as for calculation of HECS/HELP repayments, family tax benefit or child care benefit. This reflects that these withdrawals represent a return of capital.

Can non-concessional contributions (post-tax) be made under the scheme?

- Yes. Non-concessional contributions can also be made within the scheme. While these contributions will not benefit from a tax concession, earnings on these contributions will benefit from the concessional rate of tax in superannuation and the higher returns often realised inside superannuation. When non-concessional amounts are withdrawn, they will not be taxed.