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canberra times: q&a

Q 1: My daughter is saving money to build a deposit to buy her first home. Is a First Home Saver Account a good idea?

Withheld, Canberra

A 1: If your daughter has a clear and specific purpose for the savings she is building up in that they are definitely to be used to put towards purchasing or building her first house, then the use of a First Home Saver Account (FHSA) can have some merit. Here are the rules for one of these accounts:

- An individual aged 18 to 64 can open an account so long as they have not previously owned a home in Australia in which they have lived and they can provide Tax File Number and proof of identity. Note - it is fine to have owned an investment property before, so long as you have not lived in it.
- You can contribute as much as you like to this account up to a maximum account balance cap, currently being $90,000. This cap includes your contributions, interest earned and any Government contributions, and is to be indexed gradually in $5,000 increments.
- All personal contributions made to this account must be in after tax dollars, so you cannot salary sacrifice into this account.
- The Government will make an additional contribution each year to your account equal to 17% of the amount you contributed, up to a maximum Government contribution of $1,020. This is reached where an account holder has contributed $6,000 in the year. While the 17% contribution amount stays the same, the $6,000 figure is indexed periodically in $500 increments.
- You are not required to pay any tax any lumpsum withdrawal, so long as the account has been contributed to at least $1,000 pa for 4 years (not necessarily in consecutive years).
- Earnings in the funds will be taxed at 15% only.
- The income nor the asset will be counted for any Government benefits such as Family Tax Benefit.
- If you do not withdraw the funds to purchase a home, then the funds will need to be rolled into a superannuation account or can be accessed at age 60.

The idea of the FHSA is a good one however you do need to be aware of the restricted nature of these funds, ie the must be used to purchase a home otherwise it is effectively locked away until age 60. If you want flexibility to use the funds for other purposes, then the FHSA would not be appropriate.

The big positive of the FHSA is that the Government will give you 17% of your annual contribution to help you save for your house. This is a very good contribution as it is effectively a return of 17% on your money in the first year. Further, if you earn more than $18,200 in a year then you are already paying tax at a marginal rate of 20.5% including Medicare Levy. So interest earned in a savings account would be taxed at 20.5%, where as the FHSA would tax earnings at only 15%. As FHSA are generally interest bearing accounts then a downside is

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that you would not be earning a lot of interest in one of these accounts right now, likely less than 4% pa currently.

The perfect way to use the FHSA is to open an account with the aim of using the funds shortly after the minimum 4 year contribution and holding period. One idea for someone determined to save for a deposit on a home would be ask family and friends to make contributions to this account for birthdays, Christmases etc to build your savings quicker.

Phil Thompson is a certified financial planner and authorized representative of Rise Financial Pty Ltd (ABN 86350987645), AFSL 311718, an Approved Financial Planning Association Professional Practice. Answers should be used as a general guide only and professional advice should be sought before making investment decisions.

Send your financial questions to phil@risefinancial.com.au

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