



New Leadership.



## FACT SHEET

# First Home Saver Account

### Eligibility

- Anyone aged over 18 will be able to open an account, so long as they comply with the eligibility criteria for the First Home Owners Grant.
- Funds will only be accessible four years after the establishment of an account.
- Funds will only be released for an eligible first home purchase (exceptions below).

### Basic Account Features

- Eligible individuals will be able to open up a separate superannuation-style account to save for a first home deposit (it will operate completely independently of their existing superannuation account).
- A \$10,000 (indexed) cap will apply to total contributions each year.
  - A \$5,000 (indexed) cap will apply to contributions made from pre-tax income each year (tax preferred contributions);
  - The remainder (\$5000 indexed) may only be used for after-tax contributions from the individual or a third party
- The cap on tax preferred contributions ensures that individuals on low and middle incomes can contribute a greater share of their pre-tax income towards home savings than is the case for higher income earners.
- It also means that – measured as a share of their income – a low-income earner will receive a greater tax benefit than a high income earner, if both save at the same rate.

### Level of tax concession on accounts

The following tax rates will apply to First Home Saver Accounts:

- Withdrawals:
  - Tax free if used for an eligible first home purchase;
- Contributions:
  - Contributions made from pre tax income ( tax-preferred contributions) – 15 percent;

- Contributions made from after tax income – no tax.
- Earnings:
  - The headline tax rate on cash earnings will be the same as the tax rate on superannuation cash earnings, 15 per cent or less after taking into account dividend imputation and capital gains in the fund.

### **Contribution arrangements**

- Many participants will simply make their pre-tax contributions by utilising salary sacrifice arrangements offered by their employers.
- Under salary sacrifice arrangements the contributions are paid automatically out of gross income before tax is paid each pay period;
- Individuals who do not participate in salary sacrifice arrangements can simply make post-tax contributions to a First Home Saver Account, but will be eligible for a tax benefit on assessment equal to the amount of tax they would have saved if they did make their contributions from pre-tax earnings (subject to the \$5,000 tax preferred cap).
- The tax benefit paid to those who do not use salary sacrifice may be paid directly into an eligible person's First Home Saver Account.

### **Four year saving horizon**

- Savings will have to be left in a First Home Saver Account for a minimum of four years.
- This accumulation period will result in significantly greater savings due to compounding earnings. A four year time horizon will also allow higher rates of return to be achieved by fund managers.
- The four year saving horizon, combined with the cap on tax-preferred contributions, may not suit all prospective first home owners. Those on high incomes may prefer to save more rapidly for their deposit because they have the discretionary income to do so.

### **Minimum contribution**

- The minimum upfront contribution will be \$1,000 to ensure accounts are opened by people who are committed to saving – and to avoid administrative inefficiencies.
- In order to accrue a qualifying year towards the four year minimum saving horizon, individuals will have to make contribution of at least \$1,000 in the relevant year.

### **Rate of return**

- The First Home Saver Account will give people saving for a first home easier access to different investment options to help them save for a deposit.
- While providers of the First Home Saver Account will be free to compete on returns, it is expected that they will offer account holders a spectrum of investment options, ranging from higher returning 'growth options', to 'capital guaranteed' investment options.

- As at June 2007, the ten year average annual return to superannuation members who invested in the growth option was between 7.2 and 9 per cent. Capital guaranteed accounts yielded ten year average returns of between 4.8 and 5.2 per cent.

### **Maximum contributions**

- Once overall *contributions* to an account reach a maximum of \$50,000, account holders will not be able to make additional contributions to the account.

### **Release of funds – eligible first home purchase**

- Funds will only be released tax free if the first home purchase of the individual qualifies for the First Home Owners Grant (FHOG) and after the minimum qualifying period has been met.

### **Early withdrawals and rollover**

- Early withdrawals will generally not be allowed before the minimum period of four years has elapsed, other than in exceptional circumstances (defined similarly to those which apply to superannuation such as severe financial hardship or illness).
- Amounts not used for an eligible first home purchase can only be accessed after a minimum of four years, less the tax concessions which the individual has received. Tax concessions will be recovered from the savings before release.
- Alternatively savings not used for an eligible first home purchase may be rolled over into an individual's existing superannuation account where they will remain quarantined until preservation age (except in exceptional circumstances as above).

### **Couples**

- Couples may only open individual accounts under the scheme.
- Where both partners hold accounts, at least one partner will need to leave their savings in their account for a minimum of four years.

### **Treatment of contributions from other parties**

- Within the annual \$10,000 limit, contributions from other parties from post-tax income of up to \$5,000 a year will be allowed, without being taxed further at the point of contribution.

### **Interaction with other policies**

- The First Home Owners Grant will remain unchanged, and using a *First Home Saver Account* will not preclude an individual from accessing the First Home Owners Grant.
- The value of the account will not be included in the asset test for social security payments, in line with superannuation.
- The existing tax treatment of housing will remain unchanged.

**Superannuation funds**

- Existing superannuation funds will be free to offer these accounts. Significant administrative efficiencies and easier access to higher rates of return will result from mirroring the framework that applies to superannuation.
- *First Home Saver Accounts* will be entirely separate from an individuals existing superannuation savings.
- Labor will work with industry representative bodies and regulators to ensure fees are transparent and kept at a minimum.

## Cameos

The tables below compare the amount an individual with the same level of post-saving disposable income would accumulate if they were saving using an ordinary deposit account, compared to if they had saved using a *First Home Saver Account*.

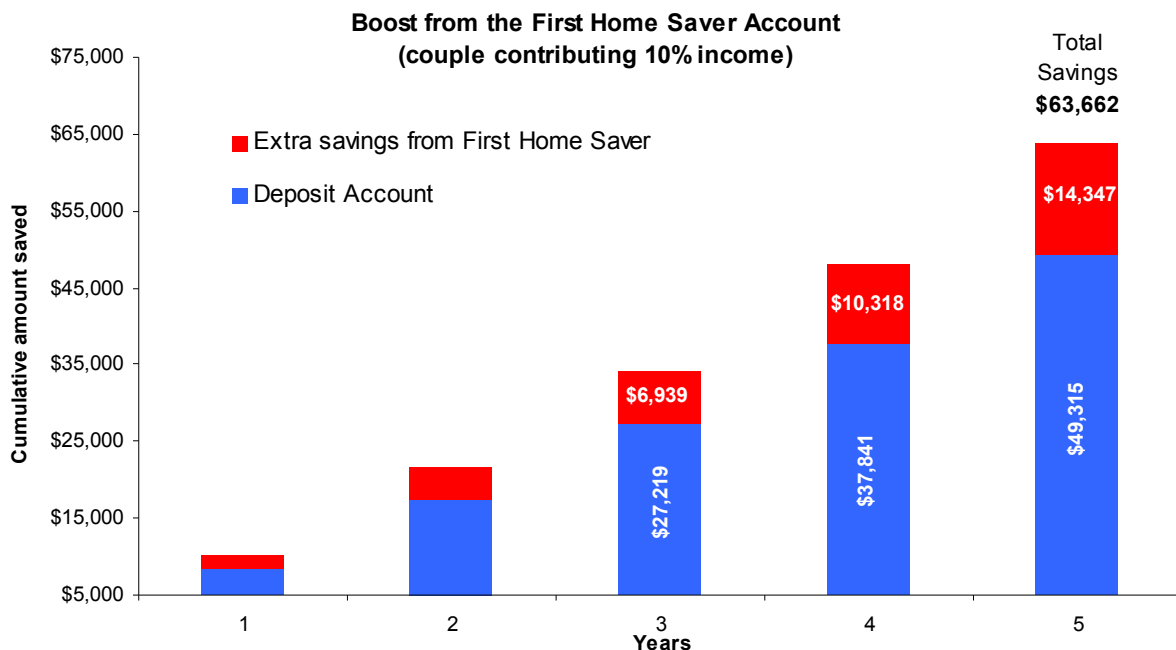
For the *First Home Saver Account*, it is assumed that the individual contributes 10 per cent or 15 per cent of their gross income towards savings, with contributions assumed to come from pre-tax earnings up to the maximum of \$5,000 a year, and post-tax earnings thereafter.

For comparison purposes, it is assumed that someone saving with a deposit account would wish to maintain the same level of post-saving disposable income, with all amounts above that allocated to savings for a home.

## Couples

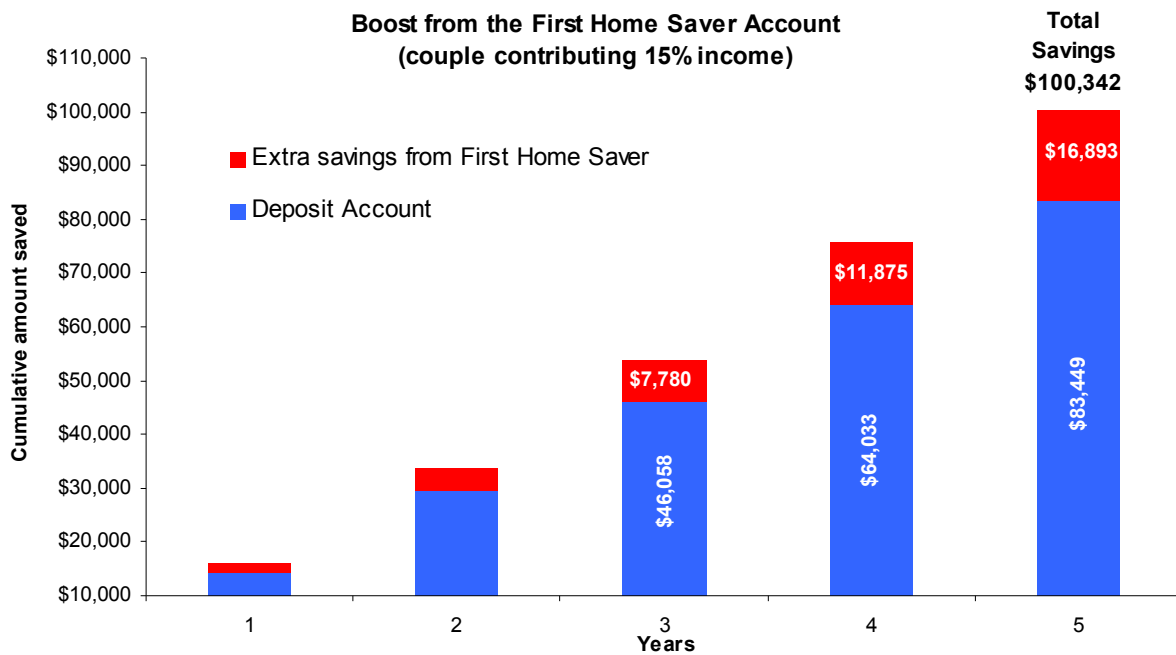
**TABLE 1: FIRST HOME SAVER ACCOUNT VS A DEPOSIT ACCOUNT AFTER FIVE YEARS– 10% SAVINGS RATE — COUPLE EACH ON AVERAGE WEEKLY ORDINARY TIME EARNINGS**

Annual starting household income (50/50 income split)	Ordinary Deposit Account	First Home Saver Account	Difference	
\$113,464	\$49,315	\$63,662	\$14,347	29%



**TABLE 2: FIRST HOME SAVER ACCOUNT VS A DEPOSIT ACCOUNT AFTER FIVE YEARS– 15% SAVINGS RATE — COUPLE EACH ON AVERAGE WEEKLY ORDINARY TIME EARNINGS**

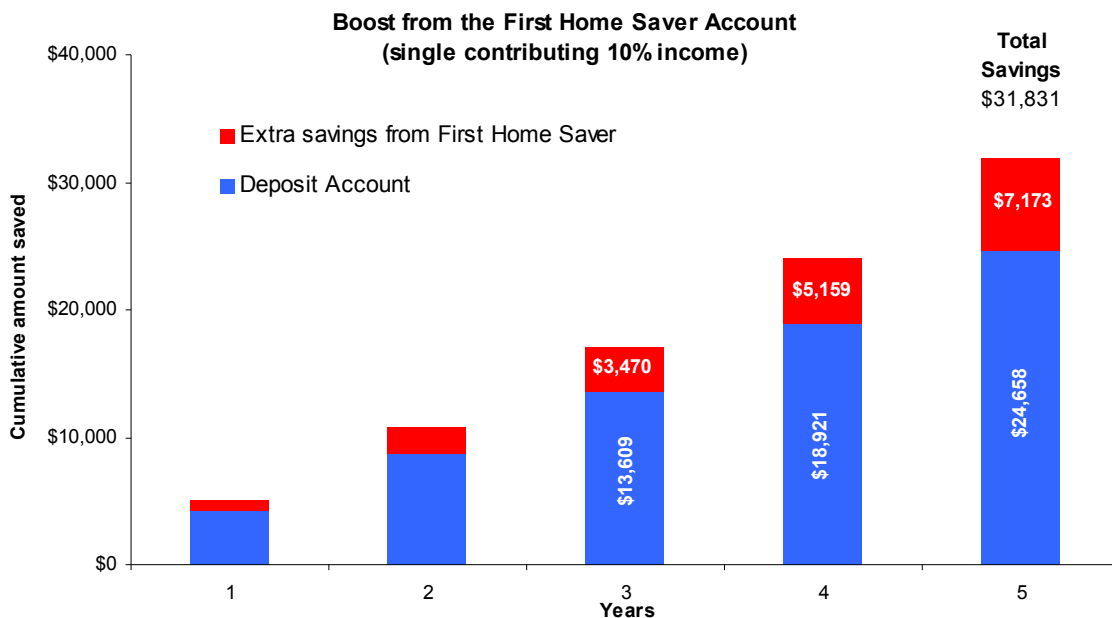
Annual starting household income (50/50 income split)	Ordinary Deposit Account	First Home Saver Account	Difference	
\$113,464	\$83,449	<b>\$100,342</b>	\$16,893	20%



**Singles**

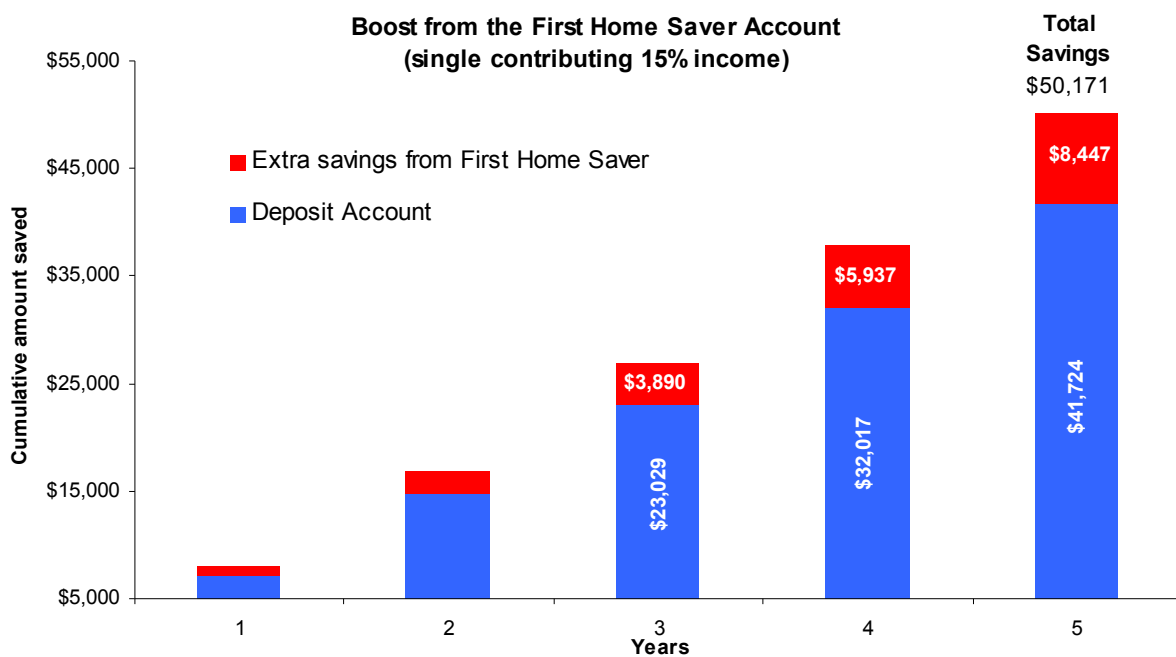
**TABLE 3: FIRST HOME SAVER ACCOUNT VS A DEPOSIT ACCOUNT AFTER FIVE YEARS– 10% SAVINGS RATE — SINGLE PERSON ON AVERAGE WEEKLY ORDINARY TIME EARNINGS**

Annual starting income	Ordinary Deposit Account	First Home Saver Account	Difference	
\$56,732	\$24,658	\$31,831	\$7,173	29%



**TABLE 4: FIRST HOME SAVER ACCOUNT VS A DEPOSIT ACCOUNT AFTER FIVE YEARS– 15% SAVINGS RATE — SINGLE PERSON ON AVERAGE WEEKLY ORDINARY TIME EARNINGS**

Annual starting income	Ordinary Deposit Account	First Home Saver Account	Difference	
\$56,732	\$41,724	\$50,171	\$8,447	20%



**Notes:**

- Pre-tax contributions made through salary sacrifice arrangements.
- Under all scenarios, savings are subject to the \$5,000 tax-preferred cap and the \$5,000 post-tax cap (\$10,000 total).
- Income and cap on pre-tax contributions indexed to wage growth of 4.3 per cent
- For *First Home Saver Account*, assumes ten year average annual rate of return for ‘Balanced’ superannuation account option, as at June 2007, of **7.5 per cent per annum**.
- For Deposit Account, assumes average interest rate of **6 per cent per annum**.
- Based on 2008-09 tax parameters.