

First Home Saver Accounts (FHSA) – GENERAL PRODUCT ADVICE

What are they?

These accounts were introduced by the government on 1 October 2008 followed by further changes in May 2011 as an initiative to provide a simple and tax effective way for Australian tax residents to save for and buy a first home to live in.

Amendments to FHSA rules increased the flexibility of the First Home Saver Accounts by allowing money in a FHSA to be paid into a genuine and existing mortgage should the accountholder purchase a home prior to the end of the minimum qualifying period and release conditions being satisfied (see details below). Previously, if you bought a home before the four financial year period was up, the money in the FHSA would have to be automatically transferred into your superannuation account meaning that you would not be able to access it until after you had retired.

There are however restrictions on the use of these accounts to ensure that the funds that are saved are used towards buying a first home. The house must be your principal place of residence; not an investment property. To meet the requirements you have to live in it continuously for at least six months within a year of settlement on the property or, if you're building, construction being completed. On the other hand, if you already own an investment property you can still open a First Home Saver Account, so long as you have never lived in it.

The release conditions basically require the account holder to make a minimum contribution to the account of \$1,000 in at least four separate **financial years** (but not necessarily consecutive years). Depending on when you make the initial contribution, final contribution and lodge your tax returns, it may be possible for you to access the money in the account after two years and two days.

If you are a younger individual and not entirely certain whether you will use these savings to buy your first home, you should speak to one of our Advisers so they can advise you of alternative ways to save.

Only individuals aged 18 to 64 years of age can apply for a FHSA and partners of a couple can each have their own FHSA as you cannot open a joint account but can use both accounts towards the purchase/deposit of your first home together. You will only have to wait until one of you reaches the 4-year savings mark to withdraw from both accounts, provided your house is bought in both your names.

How does it work?

Individuals put money into the FSHA account the same way you would make deposits into a normal bank account

In order qualify for the FSHA and receive the 17% co-contribution from the government you need to deposit at least \$1,000 in 4 separate financial years. You do not have to put money in each year – but you will only get the co contribution when you do. Deposits can be made as one lump sum or you can do it as part of a regular savings plan.

Once your account reaches a total balance of \$85,000, (as at December 2011-this amount will be indexed over time) you cannot put any more money into the accounts but the interest will still be credited to your account.

Tax on the interest earned in the FHSA is at a low rate of 15%, and the tax is deducted from your account so earnings on the FHSA do not need to be included in your personal income tax return and does not affect any Centrelink Benefits that you may be receiving.

Many, but not all, financial institutions offer FHSA's and it is prudent to shop around to find a product that offers the best interest rate and certainly at least matching the RBA rate (4.25% at December 2011), with interest calculated daily and credited on a monthly basis and most accounts do not charge any bank fees.

You may find the following link useful in identifying an appropriate provider of a FHSA – you will need to select at call savings and tick the box next to first home savers <http://www.infochoice.com.au/banking/savings-account/list.aspx>

Government Contributions

For every dollar up to \$5,500 that is deposited into your FHSA, the government will make a contribution of 17 cents. You can contribute more than \$5,500 in any year, but the government will only contribute 17 cents up to this level, so the maximum government contribution you can receive in a year is \$935 as at December 2011.

The government contribution is paid directly into the FHSA after you have lodged your tax return for the relevant year and the FHSA provider has lodged the appropriate details with the ATO.

When can you withdraw funds?

The primary condition of release is the account must be held for at least 4 separate financial years before any withdrawal can be made – this must be a *full* withdrawal and the account must then be closed. Partial withdrawals are not permitted.

1. Minimum Contributions

If you have contributed at least \$1,000 in four separate financial years you are able to withdraw your funds to use towards the purchase of your first home.

2. Genuine mortgage

If you purchase a home before the minimum four year qualifying period, the account will remain open but will be deemed inactive as no further contributions can be made. Once the account has been held for 4 qualifying financial years you are then able to withdraw the funds to use towards the payment of a genuine mortgage.

The qualifying financial years in this instance will include any year prior to the year of purchase in which a minimum \$1000 contribution was made, the year of the purchase and the financial years that follow.

3. Other Conditions

REMEMBER, you can't change your mind and withdraw the funds to head off overseas or buy a new car. If you don't buy a home, the savings will be added to your super where they will remain until you basically retire.

Once one of the above conditions is met or you reach 60 years of age, you can apply to have the balance of your first home saver account released to you or you can have it transferred to your superannuation account. When you reach the age of 65, your provider must close your account. The funds can be paid to you or, if you don't advise your account provider before you turn 65 years, they will transfer the balance of your first home saver account into your super.

There is no tax to pay when withdrawing funds to buy or build your first home or if you are over 60 years of age. If you close the account for any other reason, the balance is automatically transferred to superannuation.

Note if the FHSA is transferred to superannuation before you are 60 years of age, the amounts transferred will count towards your Non-Concessional contribution for that year (currently the Non-Concessional contribution limit is \$150,000 or if under 65 \$450,000 using the bring forward provisions). Even though the transfer counts towards your Non-Concessional contribution limits you would not be eligible for the superannuation co-contribution amount.

When withdrawing funds to buy or build your first home the funds must be used within 6 months, otherwise they get transferred back to the FHSA.

Strategies

Various strategies can be employed to make the best use of the FHSA for your circumstances. A meeting can be arranged with one of our Advisers who can look at your own personal situation and provide individual advice.

Living Overseas for a period

It is not necessary to be living in Australia to open and make contributions to a FHSA. However you must be an Australian resident for tax purposes for at least part of the financial year in order to receive any government contribution into your FHSA.

Tax residency has a number of implications and should be discussed with your accountant before any assumption is made as to your residency status for tax purposes.

Calculator

The following link provides a very useful calculator that can estimate the amount you might save when utilising a FHSA account. Please note it is indicative only.

<http://www.moneysmart.gov.au/tools-and-resources/calculators-and-tools/first-home-saver-calculator>

This content is general in nature and has been prepared for information purposes only and does not constitute any specific recommendations. It has not taken into account your objectives, financial situation or needs and you must therefore assess whether it is appropriate, in the light of your own individual objectives, financial situation or needs, to act upon this content. We recommend that you obtain financial, legal and taxation advice before making any financial investment decision.

Please note that a Product Disclosure Statement (PDS) should be obtained before making any investment decisions about financial products and a copy of the PDS can be obtained from your financial adviser. You should also refer to the Financial Planning Services Australia Pty Ltd/ Life Strategies Financial Services Financial Services Guide (FSG) in relation to any financial service provided to you.