

First home saver accounts – common questions

SETTING UP A FIRST HOME SAVER ACCOUNT

What is a first home saver account?

A first home saver account is a savings account designed to offer you a simple, tax-effective way of saving for your first home through a combination of government contributions and low taxes. Using a first home saver account means that from 1 October 2008, the government is going to help you save for a home.

How is a first home saver account different from a normal account?

First home saver accounts are designed to help you buy your first home.

It's a special purpose account that's more like a term deposit than a normal, everyday account, because you have to keep the money there for a minimum period of time. Once that time has passed and you make the decision to buy your home, you have to withdraw all the money at once and close the account.

The advantages of a first home saver account over a normal account are that government contributions add to your savings, and withdrawals are tax-free.

Earnings on first home saver accounts are taxed at 15% but this must be paid by the account provider.

You can also make personal contributions at any time – for example, from your pay, a tax refund or an inheritance.

What is a home?

A home is a dwelling. This means a unit of accommodation that's fixed to the land, such as a:

- house
- flat
- unit
- apartment
- townhouse.

It does not include a demountable dwelling, mobile home, caravan or boat, unless it is suitable for you to occupy as a residence and is fixed to land you own.

How long do you have to live in the home for?

You must live in the home for at least six months and it must be your main residence. The six month period must start:

- within 12 months of you becoming the owner of the home (which happens on settlement of the contract), or
- within 12 months of the construction being completed. Generally, this is when the certificate of occupancy is issued.

This is known as the 'occupancy rule'.

How do you apply to open a first home saver account?

You need to decide which account provider you're going to open your first home saver account with and then complete an application form.

To open an account, you must satisfy the eligibility criteria and provide your tax file number.

Does the first home saver account replace the First Home Owner Grant?

The first home saver account does not replace the First Home Owner Grant. If you meet all the conditions, you may be eligible for both; however, you have to use a separate applications process for each.

➤ For more information about the First Home Owner Grant, visit www.firsthome.gov.au



If you open a first home saver account and earn interest, will this affect your Centrelink payment or your family tax benefit?

Any interest you earn from your first home saver account is not your income and is not taken into account in assessing your entitlement to Centrelink payments including family tax benefit.

Earnings on the account are taxed at 15% but the tax is paid by the provider of the account.

When can you open a first home saver account?

Account providers will be able to offer first home saver accounts from 1 October 2008.

Can you open a first home saver account at your usual bank, building society or credit union?

You need to check whether your bank, building society or credit union is offering these accounts. Account providers also include:

- life insurance companies
- friendly societies
- trustees of public-offer superannuation funds.

ELIGIBILITY

How do you know if you're eligible to open one of these accounts?

To open a first home saver account, you must:

- be aged over 18 and under 65
- have a tax file number you can quote in your application
- have not previously owned a home in Australia that has been your main residence, and
- have not previously had a first home saver account.

If you have previously opened a first home saver account, you can still open a new one if you:

- are transferring all the money in one first home saver account to another first home saver account,
- closed a first home saver account to buy or build a home but that did not eventuate and you are opening another first home saver account within six months of closing the first one, or
- closed a first home saver account within the 14 day cooling off period.

Do you need to be an Australian resident to open a first home saver account?

You don't have to be living in Australia to open or contribute to a first home saver account – you can do this while you're living overseas, even if it's for several years.

However, you do have to be an Australian resident for income tax purposes for at least part of the financial year to receive the government contribution. You will be entitled to a government contribution for any personal contributions made to the account during the financial year and later financial years when you remain a resident, after you:

- move back to Australia, and
- lodge your next tax return declaring you're a resident.

Before you withdraw the money from your account to buy your first home, you will have to satisfy the four-year rule and the payment rule. You will also have to return to Australia to satisfy the occupancy rule.



For more information about residency:

- phone us on **13 28 61**
- refer to the residency overview on our website by visiting www.ato.gov.au/individuals and selecting Other situations – Travelling/international – Residency.

If your partner currently owns a home, can you still open a first home saver account?

First home saver accounts are opened on an individual basis. Providing you meet the eligibility criteria, you can open an account even if your partner owns a home.

If you bought and lived in a home with your previous partner, but then you separated and sold the house, can you open a first home saver account?

Because you owned a share of a home you previously lived in, you don't meet the eligibility criteria, so you can't open a first home saver account.

Can you and your partner, or a group of friends, pool your savings to buy your first home?

As long as one of you satisfies the four-year rule, you can combine the savings in each of your first home saver accounts to buy a home together. The individuals who contribute the balance of their first home saver accounts to buy the home must each satisfy the occupancy rule.

If you have a first home saver account but your partner doesn't, can you buy a home together?

You can buy a home using your first home saver account savings combined with someone else's savings, regardless of whether they have a first home saver account. However, you must still satisfy the four-year rule, the payment rule and the occupancy rule.

If you own an investment property, can you still open a first home saver account?

If you haven't ever lived in the investment property, then it hasn't been your main residence. If you meet the other eligibility criteria, you can open a first home saver account.

PERSONAL CONTRIBUTIONS

Can others make personal contributions to your account?

Members of your family or others can make contributions to your account. However, if your employer is making payments from your salary or wages into the account, they have to withhold pay as you go (PAYG) tax before making the contributions.

Is there a minimum or maximum amount you have to deposit every year?

You can deposit as little or as much as you like every year, up to a maximum cap over the life of the account. The cap is \$75,000 for the 2008–09 financial year and will be indexed over time.

If you can't afford to deposit anything for a while, that's not a problem. Before you can withdraw your savings, you must have contributed at least \$1,000 per year for at least four financial years, although it doesn't have to be in consecutive years.

Can you make contributions to your account from pre-tax income or by salary sacrificing?

All contributions to your first home saver account must be made from your after-tax income – for example, salary or wages – from which your employer has withheld PAYG tax. This may include automatic deductions from your pay into your account.

Salary sacrifice arrangements are not catered for by first home saver accounts.


GOVERNMENT CONTRIBUTIONS

What's the government contribution and how does it work?

The more money you save in your first home saver account, the more the government will contribute.

The government will make a contribution equal to 17% of your personal contributions for the financial year, up to a maximum of \$850 for the 2008–09 year. So if you contribute \$5,000 or more to your account during the 2008–09 year, the government will contribute \$850. The maximum annual government contribution will also be indexed over time.

You receive the government contribution once a year, after you've lodged your tax return.

 Remember, government contributions are based on the amount of personal contributions made into your account during the financial year, so if no personal contributions are made, you won't receive any government contribution.

How will the government contribution work if you don't have to lodge a tax return?

You will need to notify us in order to receive the government contribution for a financial year in which:

- you made personal contributions to your account, or
- contributions have been made by a third party to your account.

In the notification, you will have to:

- quote your tax file number, and
- confirm you were a resident of Australia for tax purposes for at least part of the financial year.

WITHDRAWING

How long do you have to keep the first home saver account open before you can withdraw the money to buy or build a home?

You have to keep your account open for at least four years. You also have to deposit at least \$1,000 per year in your account in at least four financial years (not necessarily in consecutive years) before you can withdraw the money.

This is known as the 'four-year rule'.

Do you have to withdraw all the money from the account at once?

You have to withdraw all the money and close your account. You can't withdraw the money gradually.

If, in the course of buying or constructing your home, you need to make multiple payments over a period, you can withdraw the money from the first home saver account, deposit it into a separate account and make the payments from there.

What can you use the money in the account for and how long do you have to spend it?

You must use the money in the course of buying or building your first home. This can include:

- paying a deposit for the purchase of an existing home
- paying a deposit or instalments for a home and land package
- paying for the purchase of vacant land on which your home will be built
- paying a deposit or instalments for the construction of a home on land you own
- meeting incidental costs you incur in buying the home – such as legal expenses, council fees, stamp duty, building and pest inspections, finance approval and loan establishment costs.

You have six months to spend the money after you close the account.

If you meet both of these conditions, you satisfy the 'payment rule'.

! If you withdraw your money to buy or build a home and this does not eventuate, there are rules that allow you to reopen the account or open a new account, as long as you do so within six months of closing the old one.

Does the money you withdraw from the first home saver account have to be used to buy your home?

Once you withdraw your money from your first home saver account, you don't have to keep it separate from your other savings.

You just have to make sure you use an amount equal to or more than the closing balance of the account in the course of buying or constructing your first home.

When you're ready to buy your first home, what do you have to do to withdraw your money?

To access the savings in your first home saver account, you need to meet certain criteria. You must:

- have met the 'four-year rule' by depositing at least \$1,000 in your account per year for at least four financial years (not necessarily in consecutive years), and
- withdraw all your savings at once and close your account.

If you find the home you want to buy before the four years are up, can you withdraw your account balance to put it towards your new home?

If you haven't satisfied the 'four-year rule' and you want to buy or build your first home that you will use as your main residence, you cannot use the money in your first home saver account to do so. However, you can use the money in your account if you are buying or building the home jointly with someone who has already satisfied the rule.

If you buy or become the owner of a home that you live in as your main residence before you satisfy the 'four-year rule', you must notify your account provider within 30 days, as you're no longer eligible to hold a first home saver account.

In these circumstances, your account must be closed and:

- the balance will be contributed to your super, or
- if you are over 60 years of age, you can withdraw the money.

Can you move your first home saver account between providers?

You can transfer the money in your first home saver account to another provider. Before you do this, we recommend you check what fees or charges apply.

What if you change your mind and don't want your first home saver account anymore?

Each first home saver account comes with a 14-day cooling-off period. This means you have 14 days to change your mind and get any contributions back.

After this period, you must either:

- transfer the money to your super
- use the money to purchase a first home (after you satisfy the four-year rule), or
- if you are over 60 years of age, you can withdraw the money.

MORE INFORMATION

For more information about the first home saver account:

■ refer to:

- *The first home saver account – what you need to know* (NAT 72406)
- *First home saver accounts – who is eligible?* (NAT 72449)
- *First home saver accounts – how can you benefit?* (NAT 72451)
- *First home saver accounts – how do they work?* (NAT 72452)
- *First home saver accounts – how does the account balance cap work?* (NAT 72450)
- *First home saver accounts – what qualifies as a home?* (NAT 72453)

■ seek professional advice from a financial planner.

To obtain a copy of these publications or for more information, visit our website at www.ato.gov.au

If you do not speak English well and want to talk to a tax officer, phone the Translating and Interpreting Service on **13 14 50** for help with your call.

If you have a hearing or speech impairment and have access to appropriate TTY or modem equipment, phone **13 36 77**. If you do not have access to TTY or modem equipment, phone the Speech to Speech Relay Service on **1300 555 727**.

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We are committed to providing you with guidance you can rely on. If you feel that this publication does not fully cover your circumstances, or you are unsure how it applies to you, you can seek further assistance from us.

We regularly revise our publications to take account of any changes to the law, so make sure that you have the latest information. If you are unsure, you can check for a more recent version on our website at www.ato.gov.au or contact us.

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