

First home saver accounts – how does the account balance cap work?

There is an overall account balance cap on first home saver accounts.

In the 2008–09 financial year the cap is \$75,000. The cap will be indexed periodically in \$5,000 increments.

Once your account exceeds the cap, no further personal contributions can be made. However, any earnings and any outstanding government contributions can still be contributed into the account.

CASE STUDY

Megan's account balance is \$80,000. On 1 May 2014, Megan makes a personal contribution of \$6,000 to her first home saver account. Assuming the account balance cap for the 2013–14 financial year is \$85,000, the provider can only pay \$5,000 into Megan's account and must refund \$1,000 to Megan or pay the \$1,000 to another account for her.

Megan is entitled to a government contribution on her \$5,000 personal contribution. Even though Megan's account balance has exceeded the cap, the government contribution and any earnings can still be paid into her account. Megan can keep the account until she acquires a home. However, no more personal contributions can be made to the account.

If a personal contribution will cause you to exceed the account balance cap, the account provider must return the amount in excess of the cap. If the personal contribution is from a third party, the amount will be returned to you, not the third party.

You can transfer funds from one first home saver account to another, even if the closing balance of the old account is more than the cap. However, no further personal contributions can be made to the new account.

THE ACCOUNT BALANCE CAP IS A LIFETIME LIMIT

Once the account balance cap is exceeded, you cannot contribute any further personal contributions into your account – even though indexation may increase the cap in later years.

Your account balance may also fluctuate causing you to move over or under the cap. For example, fees debited to an account may reduce the balance. However, once you exceed the cap, you cannot make any more personal contributions.

You need to know the account balance cap for the financial year if you are likely to exceed it. The Tax Office will publish the cap for each year.

CASE STUDY

On 28 April 2013, Steven makes a contribution to his first home saver account and his balance reaches \$75,000. On 15 August 2013, Steven's provider pays earnings of \$5,100 to his account – bringing his account balance to \$80,100. Assuming the account balance cap for 2013–14 is \$80,000, Stephen has exceeded his account balance cap and cannot make any further personal contributions.

On 1 November 2013, an account keeping fee of \$165 is debited to Steven's first home saver account and his account balance falls to \$79,935. As Steven exceeded the cap on 28 April 2013, he cannot make any further personal contributions even though the account balance has fallen below the cap. However, any earnings and any outstanding government contribution can still be contributed into his account.



EXCEPTIONS

Purchase or construction of your new home does not eventuate

If you close your first home saver account to buy or build your first home and the purchase or construction does not eventuate, you can open a new first home saver account within six months of closing the old one.

In this situation, you will not be considered to have exceeded the account balance cap even if the amount you contribute into your new first home saver account is more than the account balance cap for the financial year.

CASE STUDY

In February 2016, the balance of Elise's first home saver account is \$83,000. In March 2016, her account is credited with \$5,000 of earnings. Assuming the account balance cap for 2015–16 is \$85,000, Elise cannot make any further personal contributions, but all the earnings of \$5,000 and any outstanding government contribution can be contributed into her account.

In May 2016, Elise withdraws the balance of her account, now \$88,000, to purchase a home. The sale of the home falls through in June 2016.

In June 2016, Elise applies to open a new account as she failed to purchase a home and would like to continue saving for one. Elise is able to contribute the full \$88,000.

Assuming Elise opened her new account in July 2016 by contributing the \$88,000 and the cap for the 2016–17 financial year was \$90,000, she can make further personal contributions up to the cap.

Family law obligations

If the balance of your first home saver account exceeds the cap as a result of earnings or an outstanding government contribution and the balance then drops under the cap as a result of you making a payment under a family law obligation, you are not considered to have exceeded the cap. This means you can recommence making personal contributions up to the amount of the cap for the relevant financial year.

Under a family law obligation means:

- under a court order (under the *Family Law Act 1975*), or
- under a financial agreement that is binding (under section 90G of the *Family Law Act 1975*).

CASE STUDY

Bruce has a balance of \$84,700 in his first home saver account in June 2013. Interest of \$4,700 and a government contribution of \$800 is credited to his account in November 2013. This takes his account balance to \$90,200. Assuming the account balance cap for 2013–14 is \$85,000, Bruce has gone over the cap.

Following Bruce's marriage breakdown, a court order is made which requires him to pay \$30,000 from his first home saver account into his wife's superannuation. Bruce transfers this amount in March 2014.

The balance in Bruce's account is now \$60,200. He can recommence making personal contributions into the account until he reaches the cap for the relevant financial year.

If a payment that is being made to your account under a family law obligation will cause your account to exceed the account balance cap, the provider must return the amount in excess of the cap.

Indexation of account balance cap

The account balance cap is indexed. Indexation is based on increases in average weekly earnings.

The account balance cap is indexed by multiplying the account balance cap for the financial year by the indexation factor. The result is rounded down to the nearest \$5,000.

EXAMPLE

The account balance cap for 2008–09 is \$75,000. Assuming the indexation factor for 2009–10 is 1.04, the cap would not increase because \$78,000 ($1.04 \times \$75,000$) rounded down to the nearest \$5,000 is \$75,000.

When the indexation factor reaches 1.067, the cap will increase to \$80,000.

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 – what qualifies as a home?* (NAT 72453)
- *First home saver accounts – common questions answered* (NAT 72404)

■ seek professional advice from a financial planner.

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