First Home Saver Accounts

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It's now official - from 1 October 2008, Australians have been able to use a First Home Saver Account (**FHSA**) to help save for their first home.

A Snap Shot View

An FHSA is intended to help you buy your first home but it's not like a normal everyday savings account because you effectively have to keep the account open for at least four years and meet certain conditions.

Then when you decide to buy or build your first home, you have to withdraw all the money, close the account and put the money towards your first home.

There are two key advantages of an FHSA:

- the government will also make contributions to add to your savings; and
- withdrawals are tax-free (earnings are taxed at 15% but this must be paid by the account provider).

You might want to consider getting the appropriate advice about whether having an FHSA is a good strategy for you if:

- you only want to use your savings to buy or build your first home in Australia to live in; and
- you think you are able to save at least $1,000 a year (that's around $20 a week) in four separate financial years (they don't have to be in row).

Can I open an FHSA?

To be eligible to open an FHSA, you need to:

- be aged over 18 and under 65 years;
- have an Australian tax file number you can quote in your application for an FHSA;
- have never owned a home in Australia that has been your main residence; and
- have never previously had an FHSA.

By the way, you can't open a joint FHSA with someone else - each person must open their own FHSA and then each of you can receive the benefits of having an FHSA set out below.

TIP

When it comes time to build or buy your first home, you can use your FHSA combined with someone else's savings, regardless of whether they have an FHSA or not.

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What if I already have an FHSA?

Even if you have previously had an FHSA, there are still some situations where you can open another FHSA, eg:

- if you are transferring all the funds in one FHSA to another FHSA;
- if you closed an FHSA but the purchase or construction of your first home did not eventuate and you are opening another FHSA within six months of closing the first FHSA; and
- if you closed an FHSA within the 14 day cooling off period.

Where can I open an FHSA?

An eligible account provider can offer you an FHSA - that is banks, building societies, credit unions, life insurance companies, friendly societies and trustees of public offer funds.

These institutions are not under an obligation to provide FHSAs, so you will need to check which institutions are offering these accounts.

TIP

Make sure you look at the Product Disclosure Statement from the account provider so you understand fully the terms and conditions on which the provider is offering you one of these accounts.

What can I use my FHSA for?

You can't just take your money out of your FHSA for any reason - you can only withdraw your savings for two main purposes:

- to buy or build for your first home in Australia to live in (this can include a house, flat, unit, apartment or townhouse, but generally not a mobile home, caravan, boat or demountable dwelling); or
- if you don't go ahead with buying or building your first home, you can put your FHSA savings towards your super.

You can use your FHSA savings as a deposit, as well as to meet some other costs you incur, in buying or building your first home.

TIP

If you own an investment property and you have not lived in it so it has never been your main residence, you can still have an FHSA provided other eligibility requirements are met.

How does an FHSA work?

Once you have set up your FHSA, there are a number of things you need to be aware of about these accounts, as well as things you have to do:

- you can keep your account open until you build or buy your first home, or turn 65 – when you reach 65, your account provider must close your account;
- there is a maximum amount of savings you can put into an FHSA over the life of the account – this is currently set at $75,000 (this amount will be indexed over time);
- there is a minimum savings requirement – you have to make personal contributions of at least $1,000 in each of four financial years (they don't have to be in a row);
- outside this minimum savings requirement, you don't have to put money into your FHSA every year – you can contribute as little or as much as you like each year, provided you don't exceed the maximum savings cap for the account;
- any personal contributions you make have to be out of your after-tax income – you can't salary sacrifice into your FHSA;
- for every financial year you put savings into your FHSA, the Government will also contribute 17% on top of your contributions up to a maximum of $850 for the 2008 – 09 financial year (this is also indexed);
- you don't have to be living in Australia to open or contribute to a first home saver account - but 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 to your FHSA;

- earnings on your FHSA are taxed at 15% but this is payable by the account provider;
- any interest you earn from your FHSA is not your income for tax purposes and also is not taken into account in assessing your entitlement to Centrelink payments;
- when you are ready to build or buy your first home and you want to use your FHSA, you have to withdraw all the money from the account and close it – you can't make partial withdrawals;

TIP

If you need to make multiple payments over a period of time once you withdraw all the money from your FHSA, you can deposit it in another account and make the payments from there.

- you need to make the payment towards building or buying your first home within six months of withdrawing the funds from your FHSA (although there are some special rules that allow for timing problems that may arise in special situations such as buying your home at auction); and
- you have to live in your home for at least six months as your main residence.

A word to the wise

There can be stiff penalties levied on you for failing to operate and use an FHSA correctly – the ATO administers these penalties.

What about the First Home Owner Grant?

You can still apply for a First Home Owner Grant if you decide to open an FHSA.

Being eligible for an FHSA does not mean you are automatically eligible for a First Home Owner Grant, or vice versa. There are different rules for these different incentive schemes.

Annual Tax Check-up

Although 30 June 2009 seems an eternity away, it's best to be prepared in advance to minimise the potential for any last minute problems that may unnecessarily complicate your tax.

To assist you, we've identified below the three most common recurring trouble spots for individuals in the ATO's Compliance Program 2008-09.

If you think you might experience any of these problems before 30 June 2009, let us know now so we can help you put in place strategies to manage them.

Employees and work-related expenses

The ATO continues to be nervous about the escalation in the overall value of work-related expense claims.

However, let's be absolutely clear from the start – there is nothing wrong with making a valid claim for work related expenses, regardless of the ATO's concerns.

Having said that, there are still a number of claims for work-related expenses where individuals regularly make mistakes. In particular, the ATO may want to look more closely at your claims in your 2008-09 tax return for things like:

- self education expenses;
- motor vehicles expenses and travel; and/or
- uniforms (and their laundering).

Also, for the 2008-09 tax year the ATO is having a close look at claims made by:

- Nurses;
- medical practitioners; and
- chefs.

Rental properties

Rental properties are targeted every year by the ATO. If you have a rental property, here is a re-cap on some of the trouble spots to avoid:

- don't overstate your interest deductions;
- only claim deductions for a property that is genuinely available for rent;
- be careful with claims for repairs and maintenance;
- always apportion deductions where there is a private non-deductible element;
- be careful if you pay any legal costs in relation to your property – they may be capital expenses and not deductible against your rental income; and
- declare all rental income.

Asset sales

For 2008-09, the ATO is again targeting a range of capital gains from the sale of assets and property, for instance:

- rental properties;
- vacant land;
- holiday homes; and
- shares and interests in managed investment funds.

Will the ATO come knocking?

The anxious question on many taxpayers' lips is will I be audited by the ATO?

In spite of the complexity of our tax system, most taxpayers keep their tax affairs in good order and would not have much, if anything, to worry about if the ATO decided to have a look at their tax affairs.

Whilst it would be good to know for sure if the ATO wanted to audit you, the reality is that no one can say for certain whether or not the ATO will want to review or audit any of your claims.

What is an ATO audit all about?

At the risk of oversimplification, an ATO audit is usually an investigation to determine if you have complied with the tax laws and paid the correct amount of tax.

ATO audits can range from one-off questions about particular transactions or claims you have made, to a full audit of your tax return and records.

As highlighted above, the ATO can also target particular industries/ professions or issues of general concern, and they may even like to have a look at the way you are keeping your records.

Common audit danger signals

Our experience suggests that you are more at risk of attracting the ATO's attention if:

- you haven't disclosed a gain or significantly under-reported it or have failed to lodge a tax return;
- your deductions seem high or excessive when compared to the income you have declared;
- your claims for deductions are outside the regular pattern for your job or the industry you work in;
- the Tax Office has already sent you requests for information and you haven't replied;
- you lodge your return late and have higher than average claims; and/or

- you work in an occupation that is of particular current interest to the ATO.

What the Tax Office knows

As a rule of thumb, the ATO is likely to investigate any gap between what is disclosed in your return and the type of information that the ATO gets automatically from other sources.

Each year the list of information that the ATO has access to grows and at present it includes details such as:

- your interest and dividend income;
- your health insurance premiums and medical expenditure and rebates;
- any government benefits and payments you may receive;
- information about your share and property transactions; and
- your employment income (including your salary and wages, allowances, lump sum payments and any fringe benefits that are reported on your Payment Summaries).

What to do if the ATO comes knocking

First of all, don't panic!

Being picked by the ATO for a review or audit doesn't necessarily mean that you have done anything wrong.

To help you deal with the ATO and give yourself time to respond properly, always follow this plan of action:

- if the ATO calls, advise them that you have an adviser and contact us immediately – we need to determine as soon as possible whether in fact you have anything to be concerned about and how to manage the ATO;
- it's best not to deal with the ATO alone – in particular, if the ATO wants a meeting, we can advise the ATO that we will also be with you and try to meet the ATO on neutral ground, like our office;
- generally don't volunteer information unless asked – only provide information in response to a particular request;
- if the ATO makes an oral request for particular information, if necessary ask for the request to be put in writing to avoid any misunderstanding; and
- if a request seems unreasonable and it will take you some time to provide the information requested, you may need to consider offering to provide the information within a more realistic time frame.