

2.2 Is it beneficial to use the FHSS scheme to save for a deposit on a first home?

Although the FHSS scheme allows an eligible individual to access voluntary contributions of up to \$50,000 (or up to \$100,000 for a couple) to buy or build their first home, the issue often raised is whether this scheme allows an individual to build up a larger deposit for their first home, compared to saving for a deposit outside of super (e.g., by using a standard deposit/savings account).

It is important to consider whether the FHSS scheme is appropriate for clients on a case-by-case basis, taking into account their personal circumstances.

Broadly, an eligible individual using the FHSS scheme can build up a larger deposit to put towards their first home, compared to saving a deposit outside a superannuation fund, where **concessional contributions** are made to a fund (including an SMSF). This can be explained as follows:

- (a) **Where the FHSS scheme is used** – Concessional contributions (and associated earnings) in a fund are generally taxed at only 15%. Furthermore, when those contributions and earnings are withdrawn under the FHSS scheme, they will be taxed at the individual's marginal tax rate (including the Medicare levy) less a 30% non-refundable tax offset. For example, an individual who pays tax at a maximum marginal rate of 39% including the Medicare levy (i.e., for taxable income of \$135,001 to \$190,000) will effectively pay net tax on their FHSS withdrawal at 9% (i.e., 39% marginal tax rate – 30% non-refundable tax offset).
- (b) **Where the FHSS scheme is not used** – An individual can generally only save a deposit for their first home by investing income (e.g., salary) after it has been taxed at their marginal rate (e.g., 39% including the Medicare levy). Furthermore, earnings on the investment outside super (e.g., interest on a term deposit) will also be taxed to the individual at their marginal rate.

EXAMPLE 3 – Larger deposit for first home under FHSS scheme

Jenny and Paul are saving for their first home together. Both of them are eligible to use the FHSS scheme to help build up a deposit for a home.

Jenny is employed as an office manager and earns an annual salary of \$150,000. Paul is an employee consultant who earns an annual salary of \$140,000. This places both Jenny and Paul on the **39% marginal tax rate** for the 2025 income year, including the Medicare levy.

Jenny and Paul have given themselves five years to save their house deposit (i.e., from 2025 to 2029), after which they plan to purchase their home. In saving for their first home, Jenny and Paul are considering one of the following two (five-year) savings plans:

Option 1: Invest in superannuation using the FHSS scheme.

Jenny and Paul will arrange with their respective employers to salary package **\$10,000** of their gross salary into their SMSF each year for five years, Δ without exceeding their concessional contributions cap. This means that combined, they will salary package \$100,000 of concessional contributions into super over a five-year period (i.e., \$10,000 x 2 persons x 5 years). Δ

The salary packaged contributions will be invested at an assumed annual earnings rate of 4.5%.

Towards the end of 2029, Jenny and Paul will release the full amount that they are entitled to from their SMSF under the FHSS scheme, and they will use it to fund a deposit on the joint acquisition of their first home. Δ To this end, they will each be able to release the following amounts:

- (a) **The full after-tax amount of salary sacrificed superannuation contributions.**

Jenny and Paul each sacrificed \$10,000 per year, Δ which does **not** exceed the \$15,000 annual limit. In total, they each sacrificed \$50,000 (\$10,000 x 5 years), which does not exceed the maximum releasable contributions. On this basis, the amount that can actually be released is \$42,500 each (i.e., 85% x \$50,000) or \$85,000 in total (i.e., 2 x \$42,500) over five years.

(b) The **full after-tax amount of earnings** on the salary sacrificed superannuation contributions.

Technically, 'deemed associated earnings' on the salary sacrificed contributions can be released, which are calculated at the shortfall interest charge rate (being higher than typical deposit rates). However, to be conservative, the deemed associated earnings for the purposes of this example are assumed to be the actual after-tax earnings on the salary packaged contributions, calculated at an assumed earnings rate of 4.5% (as noted above). These (deemed) associated earnings do **not** count towards the FHSS scheme caps.

Jenny and Paul will each be entitled to a non-refundable **FHSS tax offset** equal to 30% of their assessable released amount (i.e., released contributions plus deemed associated earnings).

Option 2: Invest outside superannuation in their personal names.

Under this savings plan, Jenny and Paul will both put aside \$10,000 of their gross salary each year for five years (i.e., the after-tax amount). This means that combined, they will set aside **\$100,000** over the five-year period (i.e., \$10,000 x 2 persons x 5 years).

The after-tax amount of these funds will be invested in their own names in a savings account at an assumed annual earnings rate of 4.5%.

Towards the end of 2029, Jenny and Paul will withdraw the full amount of their post-tax savings, and they will use this amount to fund a deposit on the joint acquisition of their first home.

Which savings plan (Option 1 or 2) achieves a greater home deposit for Jenny and Paul?

Jenny and Paul can increase the amount of their home deposit by **\$20,481** if they adopt the Option 1 savings plan, which takes advantage of the FHSS scheme, as follows: ❶

Option 1: Invest using the FHSS scheme

Year 1 Salary sacrifice amount	\$ 20,000
Less: Contributions tax	\$ (3,000)
	\$ 17,000
Plus: Gross earnings	\$ 765
Less: Tax on earnings	\$ (115)
Net savings	\$ 17,650

Year 2 Plus: Salary sacrifice amount	\$ 20,000
Less: Contributions tax	\$ (3,000)
	\$ 34,650
Plus: Gross earnings	\$ 1,559
Less: Tax on earnings	\$ (234)
Net savings	\$ 35,976

Year 3 Plus: Salary sacrifice amount	\$ 20,000
Less: Contributions tax	\$ (3,000)
	\$ 52,976
Plus: Gross earnings	\$ 2,384
Less: Tax on earnings	\$ (358)
Net savings	\$ 55,002

Year 4 Plus: Salary sacrifice amount	\$ 20,000
Less: Contributions tax	\$ (3,000)
	\$ 72,002
Plus: Gross earnings	\$ 3,240
Less: Tax on earnings	\$ (486)
Net savings	\$ 74,756

Option 2: invest outside superannuation

Year 1 Pre-tax salary	\$ 20,000
Less: Income tax on salary	\$ (7,800)
	\$ 12,200
Plus: Gross earnings	\$ 549
Less: Income tax on earnings	\$ (214)
Net savings	\$ 12,535

Year 2 Plus: Pre-tax salary	\$ 20,000
Less: Income tax on salary	\$ (7,800)
	\$ 24,735
Plus: Gross earnings	\$ 1,113
Less: Income tax on earnings	\$ (434)
Net savings	\$ 25,414

Year 3 Plus: Pre-tax salary	\$ 20,000
Less: Income tax on salary	\$ (7,800)
	\$ 37,614
Plus: Gross earnings	\$ 1,693
Less: Income tax on earnings	\$ (660)
Net savings	\$ 38,646

Year 4 Plus: Pre-tax salary	\$ 20,000
Less: Income tax on salary	\$ (7,800)
	\$ 50,846
Plus: Gross earnings	\$ 2,288
Less: Income tax on earnings	\$ (892)
Net savings	\$ 52,242

Year 5 Plus: Salary sacrifice amount	\$ 20,000	Year 5 Plus: Pre-tax salary	\$ 20,000
Less: Contributions tax	\$ (3,000)	Less: Income tax on salary	\$ (7,800)
	\$ 91,756		\$ 64,442
Plus: Gross earnings	\$ 4,129	Plus: Gross earnings	\$ 2,900
Less: Tax on earnings	\$ (619)	Less: Income tax on earnings	\$ (1,131)
Net savings	\$ 95,266	Net savings	\$ 66,211
Less: Tax on withdrawal	\$(37,154)		
Plus: 30% FHSS tax offset	\$ 28,580		
After-tax withdrawal amount	\$ 86,692		

Conclusion

If Jenny and Paul invest in their SMSF using the FHSS scheme, they will have a combined withdrawal amount (for their first home deposit) of \$86,692 (Option 1). In contrast, if they invest outside superannuation, they will only have a combined after-tax amount (for their first home deposit) of \$66,211 (Option 2). Therefore, by saving for their first home through the FHSS scheme, Jenny and Paul are able to **increase** their **deposit** by **\$20,481** (i.e., \$86,692 - \$66,211).

The increased deposit is due to the packaged contributions and earnings thereon being subject to a 15% tax rate in the SMSF, with only 9% tax paid on the withdrawal of the funds due to the 30% FHSS tax offset (i.e., 39% marginal tax rate – 30% tax offset). In contrast, Jenny and Paul are subject to a tax rate of 39% if they invest in their own names outside the fund.

❶ For the purposes of this example, the marginal tax rates and Medicare levy for the 2025 income year have been used. Taxable income and investment returns are also assumed to remain constant.

Note that **rounding** has also been **applied** to these calculations.

2.2.1 Benefits of the FHSS scheme for different marginal tax rates

Broadly, the after-tax savings associated with using the FHSS scheme (compared to investing outside of super) will vary depending on the marginal tax rate that applies outside super. Following on from Example 3 above, the following table sets out how much Jenny and Paul's house deposit would basically change if they were on a different marginal tax rate outside their SMSF. The table sets out their (after-tax) **withdrawal amount** (for their first home deposit) under both the savings plans considered in the example (i.e., Option 1: invest using the FHSS scheme and Option 2: invest in personal names outside of super). Note that rounding has been applied to the calculations.

Marginal tax rate ❶	Option 1: invest using FHSS scheme	Option 2: invest in personal names	Increased deposit under Option 1 ❷
18%	\$95,266 ❸	\$91,537	\$3,729
32%	\$93,360	\$74,503	\$18,857
39% ❹	\$86,692	\$66,211	\$20,481
47%	\$79,071	\$56,915	\$22,156

❶ The marginal tax rate includes the Medicare levy. The rate is assumed to remain constant for each year of the couple's five-year savings plan.

❷ This is the increased house deposit Jenny and Paul will achieve by adopting the Option 1 savings plan, which involves investing in superannuation using the FHSS scheme.

❸ In this case, Jenny and Paul would have an excess FHSS tax offset that can be applied to reduce the tax payable on their salary income (i.e., they are each entitled to a 30% FHSS tax offset, and their marginal tax rate is less than this). However, note that if their tax payable is not sufficient to absorb this excess tax offset, the remaining tax offset is **not** refundable.

❹ The outcomes for the 39% marginal tax rate are explained in detail in Example 3 above.