



Sun-Herald(Sydney)

Sunday 9/11/2008

Page: 3
Section: Supplement 2
Region: Sydney, AU
Circulation: 483220
Type: Capital City Daily
Size: 375.67 sq.cms.



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A boost for savings that's on the house

Here's how to save money fast, writes **David Potts**.

A COUPLE who use the Rudd Government's new First Home Saver Accounts to the max would have a deposit of nearly \$50,000 in just under three years.

And that's without the improved \$14,000 (or \$21,000 for building) home grant paid by Canberra but run by the NSW Government.

Under the home saver accounts scheme that started on October 1, the Government pays 17 per cent into your account gratis.

The main condition is you eventually use it to buy a home or unit, even a block of land if you start building on it within a year.

The Government's contribution is capped at \$850 a year tax free but you have to put in \$5000 in a year to get it.

You must deposit at least \$1000 in each of four financial years although they don't have to be consecutive.

Technically you can't touch the money for four years but in practice it's available in just under three years.

Tony Beck, head of corporate affairs at Members Equity Bank, says: "You can access your cash in July 2011 after making your fourth contribution in early July 2011 - only 2¼ years from now.

"It means first home buyers can start looking for their first home in spring 2010 and can buy from April 2011 - 2½ years away - with a 90-day settlement."

By putting in \$5000 a year and receiving the maximum \$850, your home savings account will have swelled to \$23,400 plus interest.

And unlike the home savings grant, a couple get two bites of the cherry. So by both saving \$40,000 you get an extra \$6800 plus interest taxed at only 15 per cent, irrespective of how much you earn.

If you've already saved, say, \$6000, put \$5000 in straight away, and leave the other \$1000 for after July 1 so as to get the Government contribution and a credit for two years' saving. But watch out if you change your mind about buying a home. Your savings will be scooped up into your super fund.

The rules for the Commonwealth's savings scheme are less onerous than for the state grants. For example, either partner can have owned an investment property previously.

The \$5000-\$850 Government contribution will be indexed.

By the way, notice the similarities between the home savings scheme and super? One can even morph into the other.

In both cases the Government pays its contribution after you've filed your tax return and not before. But unlike super, you can't salary sacrifice into the new accounts.

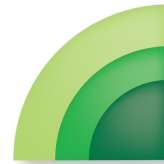
By the same token, when you withdraw the money for your deposit (or legal fees, a block of land or whatever expenses you like so long as they're connected to buying a property) they're tax free just like a normal bank account. But not all banks offer them.

The most generous is Members Equity Bank's 8 per cent. Other banks to offer the accounts are ANZ and Commonwealth.



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Smart ... Peter and Annalisa Nyers have bought a home and planned for the future. Photo: Greg Totman

> CASE STUDY

IT TOOK first home buyers Peter and Annalisa Nyers a year to find a home but they got the loan overnight.

The couple live in Wollongong and as Annalisa works in Sydney, they had only weekends for townhouse hunting.

They have saved \$25,000 and will get a \$14,000 Government home grant.

Peter, a business development manager at civil works contractor Little Ants, logged on to mortgage broker website bidmyloan.com.au at nine one evening and by 9.30 the next morning had six email offers from lenders.

The cheapest was 0.75 of a percentage point below anything he'd seen advertised.

"My father-in-law came across it and put me on to the site. But it's not as simple as how much you earn," Peter says.

"It has a variety of loans. You tick the boxes for what you want."

He wanted an offset account to give the

couple more flexibility in three years' time, when Annalisa plans to stop working and start a family.

The Nyers will take out an interest-free mortgage but tip the extra cashflow into an offset account they can draw down later when they have only one income.

The beauty of such an offset account is the couple could then let their property down the track and claim a tax deduction on the interest.

Switching from renting to buying a home will add \$160-\$170 a week to their expenses, easily manageable on two incomes. It's especially sensible when rents are rising and rates are falling.

"We've ruled out emotional factors such as having a polished floor and that sort of thing. You've got to create wealth for the future," Peter says.

DAVID POTTS