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Young and old to benefit from property changes

Duncan Hughes *Reporter*

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Superannuation is being made more flexible to meet the needs of the nation's first home buyers and increasing numbers of Baby Boomer downsizers.

Generous tax concessions for home buyers, the lifting of caps on downsizer super contributions and a revamp of the government's neglected pension loan scheme will boost options for young and old savers.

First home buyers

The First Home Super Saver Scheme: Introduced last year to allow voluntary contributions of up to $30,000 to be withdrawn from super by owner-occupier first home buyers, it was extended to $50,000 in this year's budget. The increase is scheduled to start from July 1 next year.

Voluntary super contributions are taxed at 15 per cent, which means $10,000 of pre-tax income becomes $8500 towards a deposit. By comparison, a saver outside of super paying income tax at a marginal rate of 32.5 per cent plus a 2 per cent Medicare levy will save only $6550.

Phoebe Blamey, a mortgage broker and financial adviser, says: "The first home buyer market remains strong." Blamey, the director of Melbourne-based Clover Financial Solutions, adds: "The super saver scheme has been a game changer for a lot of people in an environment of low savings deposit rates and rising asset values."

The scheme has been criticised for damage it might cause to long-term super savings. Those who make use of it are encouraged to top up their super later.

According to Finder, which monitors fees and rates, a 25-year-old spending $50,000 from a balanced super account with annualised growth of about 6.4 per cent could reduce super savings by about $78,000 at age 65. If this was a high-growth fund (with annualised growth of 9.5 per cent), the final balance would be $228,000 lower.

Michael Chlepko, managing director of Co-Efficient Solutions, a management consultancy, loves the scheme but claims the Australian Taxation Office's inflexible interpretation of the rules cost him a home deposit of $15,000.

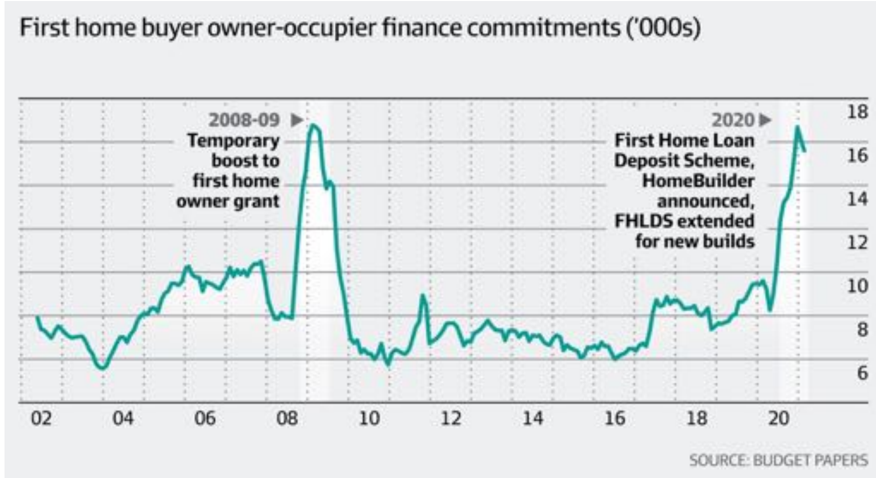
Lengthy dispute with ATO: Michael Chlepko. **Arsineh Houspian**

Chlepko, who is self-employed, says the ATO would not allow him to use the scheme because his super contributions did not distinguish between the 9.5 per cent super guarantee and his voluntary contributions.

“I am unimpressed by the bureaucracy,” says Chlepko, who employed two accountants to investigate his concerns and complained to the tax ombudsman. The complaint took about five months to be resolved during 2020, after he wrote to the ATO on his company letterhead explaining that he, as managing director, had made the payments to himself.

First Home Loan Deposit Scheme: The popular scheme to encourage first home buyers of new homes and off-the-plan apartments to encourage new building will be extended by 10,000 places. It starts from July 1.

The chart highlights how first home activity can be influenced by government incentives.



“This is an improved version because it is easier and fairer to qualify for than the first scheme,” Chris Foster-Ramsay, principal of mortgage broker Foster Ramsay Finance, says.

CoreLogic’s Lawless says: “While there is evidence to suggest first home buyers prefer established housing, incentives designed for the purchase of a new property have been successful in funnelling demand into new builds.”

According to government analysis, first home buyer demand in March was about 58 per cent higher than for the same month last year.

The scheme is being launched at a time of sharply rising costs in building materials and labor caused by the impact of COVID-19.

Eligible borrowers will be able to buy a new house, apartment or a house-and-land package with a deposit of between 5 and 15 per cent of the property’s value, compared to the usual 20 per cent, without taking out lender’s mortgage insurance.

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Applicants first need to choose a loan from a lender on the scheme's panel that offers the rates, terms and conditions that best meet their needs. It has to be a principal-and-interest loan. Investors are not eligible.

Prospective borrowers should gain pre-approval for their loan from the lender, which will involve providing identification, age, proof of income, a prior property ownership test, proof of deposit and intention to be an owner occupier.

Matt Malseed, managing director of Hamton Property Group, adds: "That the initiative is spread over four years, capped at 2500 places a year, means only a small portion of eligible buyers will benefit."

Downsizers

Ian and Maureen Partridge, a retired couple who recently sold their home of more than 50 years, have the option of contributing up to $300,000 each from the proceeds of the sale.

The couple, both in their 70s, qualify under the original scheme introduced in the 2017-18 budget. From July 1, 2022, it's proposed the threshold will be lowered by five years so that those aged 60 and older will be able to access the scheme.

Ian and Maureen Partridge are in their 70s and moving to a nearby retirement village. From July next year, even those as young as 60 can put up to $300,000 each into superannuation when they sell up. **Darren Pateman**

Tim Lawless, head of research for CoreLogic, which monitors property prices, says: "The measure may free up more established housing by incentivising home sales sooner. This is particularly important in the current climate, where housing demand remains high against a low supply of available properties."

Demand for residential property has outpaced supply during the boom with total listings about 24 per cent below the five-year average, according to CoreLogic analysis.

Malseed says: "It is difficult to know the significance of the downsizer change. I don't see it being a gamechanger as the primary drivers to downsize are personal lifestyle considerations more than a free hit on superannuation."

James Kirkwood, sales director of Upside Realty, a real estate agency, says: "My concern is current demand and supply imbalances will be exacerbated while we are waiting (until next year) for these incentives to come into place."

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Demand for the Partridge's home in Wallsend, a suburb of Newcastle about 170 kilometres north of Sydney, was boosted by a 10 per cent rise in prices during the past 12 months as buyers shifted from capital cities in the wake of COVID-19.

The grandparents have bought a property in a nearby retirement village for over-55s that is built around a golf course.

Pension Loans Scheme

The scheme allowing senior Australians to supplement their retirement income with a government loan secured against real estate they own, such as the family home or an investment property, has been expanded.

Borrowers can stay in their home and do not have to repay the loan while living there, which is similar to a commercial reverse mortgage. The debt, which has an interest rate of 4.5 per cent, is usually recovered when the property securing the loan is sold or from the person's estate after they have died.

Under the proposed changes, scheduled to start on July 1, 2022, age pensioners – and self-funded retirees – can top up their pension with a loan amount of up to 150 per cent of the maximum fortnightly rate, which is $952.70 for a single and $1436 for a couple.

Brendan Ryan, principal of Later Life Advice, an independent financial adviser, says: "This is a powerful improvement. The maximum rate of age pension, with a 50 per cent top-up from a loan scheme, can provide a pretty solid base to manage day-to-day costs. It may take the pressure away from the need to sell the home to free up cash."

Ryan adds: "The ability to draw down as a lump sum is a very useful expansion of the scheme to help one-off costs." He says the interest rate seems high compared to average standard variable rates of about 3 per cent.

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