First Home Savings Account (FHSA)

Buying your first home has never been so intimidating or expensive. The market is at or near an all-time high, many homes have sold with multiple offers, purchases made with no conditions, and now, interest rates have risen substantially in the last year, increasing the cost of borrowing for most Canadians and putting additional cash flow pressure on families as a result of increased mortgage payments.

Suppose you're looking to enter the market for the first time. In that case, you will want to use every resource available, including government programs, professional guidance, or preferably both. Knowledge is power, and several programs are available to help you reach your goals.

Available Programs

- First-Time Home Buyer Incentive
- Home Buyer's Plan
- Home Buyer's Amount
- Land Transfer Tax Refund
- First Home Savings Account

If you want to discuss how you or someone you know can use the above programs, talk with your financial planner about which options may be right for you.

The focus of this publication is to provide additional information on the First Home Savings Account (FHSA).

Tax-Free First Home Savings Account (FHSA)

FHSA is a proposed savings account that acts like an RRSP, specifically for those saving to purchase their first home.

Quick Facts

- You must be 18 years of age and a Canadian resident to open an FHSA.
- Contributions are tax-deductible, like an RRSP.
- Withdrawals, including accrued investment income or gains, are tax-free, like a TFSA, if the withdrawal is used to purchase a home.
- Your maximum tax-deductible contribution will be $8,000 per year, lifetime maximum of $40,000.
- Upon the fifteenth anniversary of opening an FHSA or when the individual turns 71 years old – whichever event occurs first – the account will be closed. Any savings not used towards the purchase a qualifying home could be transferred into an RRSP or RRIF on a tax-free basis or would otherwise have to be withdrawn on a taxable basis.

Eligibility

- You qualify as a First-Time Home Buyer as per the definition below
- Can be used with other programs *(source: https://www.advisor.ca/tax/tax-news/first-time-homebuyers-can-use-fhsa-and-hbp-feds-propose/)*

First-Time Home Buyer Definition

First, you need to clarify if you are, in fact, a First-Time Home Buyer. In Canada, a First-Time Home Buyer is someone who has yet to own a home in which they lived at any time during the part of the calendar year before the account is opened or at any time in the preceding four calendar years. In addition, the individual must not have occupied a home owned by their current spouse or common-law partner.

Other Pertinent Details

The type of investments eligible to be held in an FHSA follow the same criteria as those permitted within a TFSA. Generally, publicly traded securities, governments and corporate bonds, mutual funds, and guaranteed investment certificates are permitted to be held within an FHSA. On the other hand, investments such as non-arm's length companies, land, shares of private corporations and general partnership units are not permitted to be held within an FHSA.

The annual contribution limit of $8,000 allows for a tax deduction for contributions to an FHSA in a calendar year. However, unlike an RRSP, contributions within 60 days of the following calendar year cannot be deducted against the prior year's income.

Like an RRSP, an individual is not required to claim a deduction in the year contributions are made – undeducted contributions can be carried forward indefinitely and deducted in a future year.

Consult with your accountant or advisor to determine the best strategy for optimizing the deduction of FHSA contributions.

The unused portion of the $8,000 annual limit can be carried forward into the future. However, the maximum contribution room to be carried forward is capped at $8,000. An individual can hold multiple FHSAs. Regardless, the total annual contribution limit of $8,000 and a lifetime limit of $40,000 applies across all accounts.

Individuals can transfer funds, on a tax-free basis, from an RRSP to an FHSA, subject to the FHSA above mentioned limits and qualified investment rules. These transfers would not be deductible and would not reinstate an individual's RRSP contribution room. Overcontributions to an FHSA would be subject to a 1% tax based on the highest amount of such excess each month that the individual remains in an overcontributed position.

If an individual passes away while holding an FHSA, their spouse should be named as the successor account holder to allow the transfer of the FHSA on a tax-exempt basis to the spouse, provided the spouse meets the criteria to hold an FHSA.

Don't delay!

Start the process today, and before you know it, you will be in your new home. **Sign up now!**

Have Questions?

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