

RRSP: Home Buyers' Plan (HBP)

The **Home Buyers' Plan (HBP)** allows people buying or building a home for the first time to borrow from their Registered Retirement Savings Plan (RRSP) tax-free. Unlike regular withdrawals from an RRSP which are taxed as income, the HBP allows individuals to access their tax-sheltered savings in an RRSP to partially fund the purchase of a home without incurring tax penalties, making it an extremely beneficial tool for young individuals.

The HBP allows an individual to withdraw up to \$35,000 from their RRSP, tax-free, for the purpose of funding a first-time home purchase. Furthermore, if you are purchasing a home with another first-time home buyer, you can both withdraw this amount, allowing \$70,000 of tax-free money to be used for the down payment on a home. These withdrawals must be made no earlier than 30 days from the closing date on your home.

There are specific eligibility rules that must be met when contemplating the HBP:

- You must be considered a "first-time home buyer" by the Canada Revenue Agency (CRA), meaning you have not owned a home in which you occupied as a principal residence in the four years prior to applying.
- You intend to occupy the home as your principal residence within a year after purchase.
- There is a written agreement in place to buy or build a home.

As mentioned above, the withdrawal from your RRSP is considered as "borrowed funds", and must be repaid per CRA rules to avoid paying taxes on those funds. The repayment must begin by the second year that the funds were withdrawn and fully repaid within 15 years. Based on these guidelines, you are required to make a minimum annual payment equivalent to 1/15th of the amount borrowed. However, you are permitted to make payments in excess of the minimum without incurring a penalty. Alternatively, if the minimum payment is not met in any given year, the difference is added to your taxable income for the year.

If these conditions outlined above are met and you are able to afford the HBP repayment amounts in addition to your other cash flow needs, you can begin the process of applying for a HBP by filling out the "Home Buyers' Plan (HBP) Request to Withdraw Funds from an RRSP". Further discussion with a Financial Planner is advised to determine if the Home Buyers' Plan suits your unique needs and situation.

Questions?

Contact us at 905-632-6134 if you have any further questions regarding this or any other topic.

