The First Home Savings Account (FHSA)

With the soaring costs of real estate, we often have clients financially helping out family members to get into their first home. The government has recognized the hardships for first time home owners as well and introduced in the First Home Savings Account (FHSA) to help. This is a newer registered account that allows eligible Canadian-resident adults to save up to $8,000 per year, to a lifetime maximum of $40,000, on a tax-free basis toward a qualifying home. Like a Registered Retirement Savings Plan (RRSP), contributions are generally tax deductible. But, like a Tax-Free Savings Account (TFSA), investment income and withdrawals are generally tax-free. Qualified investments include stocks, bonds, mutual funds, and GICs but do not include direct investments in real estate. This unique combination of tax benefits makes the FHSA a powerful tool.

Who can open an FHSA?

The holder must be a Canadian resident, age of majority and a first-time home buyer. While you cannot open an FHSA for your kids, you can gift them money to contribute to a FHSA. In this scenario, the adult child would get the tax deduction, not the parent.

Participation Room

FHSA Participation Room accumulates at $8,000 per calendar year, beginning the year the account is opened and the full $8,000 can be contributed right away. Tax-deductible contributions and non-tax-deductible transfers from an RRSP both reduce the FHSA Participation Room. Note that transfers from a Registered Retirement Income Fund (RRIF) are not permitted. Participation Room is also subject to a lifetime maximum of $40,000. Generally, excess FHSA Contributions are subject to a punitive tax of 1% per month until corrected. Unused Participation Room is carried forward to future calendar years, subject to a maximum carryforward of $8,000. Lastly, unlike RRSPs, contributions to FHSAs within the first 60 calendar days of a year cannot be claimed as a deduction on the prior year's tax return.

Qualified Withdrawals Conditions:

1. You must be a Canadian resident.
2. You must qualify as a first-time home buyer meaning you did not, in the current year or the preceding four years, live in a qualifying home which is owned (jointly or otherwise) by you or your spouse as your principal residence.
3. You must have a written agreement to buy or build a qualifying home with completion date by October 1 of the year following the date of withdrawal.
4. You must occupy it as your principal residence within one year after buying or building it.
5. You must not have acquired the qualifying home more than 30 days before making the withdrawal.

Maximum Participation Period

FHSAs must be closed by December 31st of the 15th anniversary of the account opening, or the year the account holder turns age 71, or the year following the year the account holder makes a qualifying withdrawal, whichever occurs first.

FHSA & Home Buyer's Plan (HBP)

The FHSA may seem like a duplication; however, participation in one doesn't disqualify someone from participating in the other. On a combined basis, a person who qualifies for both could make $100,000 of tax-deductible savings toward a first home, and a couple could make $200,000 in combined savings. There are some key similarities and differences to understand:

- FHSA withdrawals can be tax-free and do not have to be repaid, HBP withdrawals would be taxable if not repaid on time.
- Investment income earned inside an RRSP and used to fund a first home purchase via the HBP will eventually be fully taxed. In comparison, investment income earned inside an FHSA and used to fund a first home purchase would generally be tax-free.
- RRSP Deduction Room accumulates based on your earned income. FHSA Participation Room only begins accumulating once the account is open.
- FHSAs have a maximum participation period of 15 years from the time the account is opened regardless of when contributions start. RRSP contributions can grow for more than 15-years, but once withdrawn under the HBP, must be repaid within 15 years after the repayment start date.

Before helping a child or grandchild, we feel there could be some planning opportunities with this new account. As always, we encourage reviewing with a trusted investment professional.

Written by Eric

Until next time... **Invest Well. Live Well.**

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