

Home Buyers' Plan (HBP)



Generally, funds withdrawn from a registered retirement saving plan (RRSP) are included in income and subject to tax in the year of withdrawal. However, there are certain provisions that permit the withdrawal of funds from an RRSP without the resulting tax consequences. One such provision is the **Home Buyers' Plan (HBP)** which allows a Canadian resident to withdraw up to \$35,000 (increased from \$25,000 to \$35,000 per individual for real estate acquired after March 19, 2019 as per the 2019 Federal Budget) from their RRSP on a tax-free basis in order to buy or build a qualifying home. Withdrawals from an RRSP that meet all applicable HBP conditions are not reported as income on your tax return or subject to withholding taxes in the year of withdrawal.

To initiate a Home Buyers Plan withdrawal, you must complete [Form T1036, Home Buyers' Plan \(HBP\) Request to Withdraw Funds from an RRSP](#).

The basics

The HBP allows you and your spouse or common-law partner (collectively referred to as “spouse”) to each withdraw up to \$35,000, tax-free, from your respective RRSPs.

The funds withdrawn may be used towards a down payment on the property or to help offset costs such as legal or moving fees. There are no restrictions on how the funds are used, only how they can be accessed and how they must be subsequently repaid.

You can make more than one withdrawal as long as the total of all withdrawals does not exceed \$35,000 and are completed within the same calendar year. The monies that are withdrawn from the RRSPs under the HBP must be paid back each year over a period of 15 years beginning in the second year following the year of withdrawal. If a payment is not made in a particular year it will be included in your income for that year and taxed accordingly.

If you are the annuitant of a spousal RRSP, you may make an eligible HBP withdrawal from that plan without the attribution rules applying. The repayment can be made to any RRSP, including the spousal RRSP, of which you are the annuitant of the plan.

Conditions for participating in the HBP

In order to participate in the HBP you must be a “first-time home buyer”. You would not be considered a first-time home buyer if you or your spouse have owned and lived in a home as a principal place of residence at any time within the four previous calendar years and ending 31 days before your HBP withdrawal.

Example:

In 2015, John lost his job, sold his principal residence which he was occupying and moved into a rented apartment. In 2017, he got a lucrative job as a senior engineer with the city. In September 2019 John would like to participate in the HBP and withdraw funds from his RRSP for the purchase of a new principal residence. Since John owned and occupied his home during the period beginning January 1 of 2015 (the fourth year before the year he wants to make the withdrawal (2019), he would not be considered a first time-home buyer. He should therefore wait until 2020 in order to qualify.

The 2019 Federal Budget expanded the definition to include spouses living separate and apart as a result of the breakdown of their marriage or partnership to provide additional access to their RRSP funds to help them maintain home ownership. The changes would allow former spouses who would not otherwise qualify for the HBP to now be eligible, subject to three conditions:

- The homebuyer must have been living apart from their spouse or common-law partner due to marriage breakdown for at least 90 days and be living apart when the withdrawal is made. They must have started living apart in the calendar year in which the withdrawal is made or any time in the previous four calendar years.
- The homebuyer’s principal residence cannot be owned or occupied by a new spouse or common-law partner.
- The homebuyer’s previous home is either sold or the homebuyer has acquired the spouse’s interest by the end of the second calendar year after the HBP withdrawal.

Other conditions that must be met to participate in the HBP include:

- You must enter into a written agreement to buy or build a qualifying home before withdrawing funds (i.e. a signed agreement of purchase and sale). Obtaining a pre-approved mortgage does not satisfy this condition.
- You must intend to occupy the qualifying home as your principal place of residence no later than one year after buying or building it.
- You must make all withdrawals in the same calendar year up to and including end of January of the following year. Any amount withdrawn after January of the following year will not be an eligible withdrawal under the HBP and you will have to include it in your income.
- A regular RRSP contribution made during the 89-day period prior to the HBP withdrawal may not be deductible in whole or in part if the withdrawal includes all or of the contributions made during the 89-day period before the HBP withdrawal. In this situation, you should wait 90 days after the last contribution to your RRSP before making your HBP withdrawal.

Example:

Jennifer, is a Canadian resident who has never owned a home as a principal residence. Her RRSP at the beginning of 2020 was worth \$25,000. She intended to withdraw \$35,000 under the HBP in April 2020. She topped up her RRSP by contributing her maximum 2019 allowable RRSP room of \$12,000 on February 28, 2020. She then withdrew \$35,000 in April 2020 under the HBP. Since the fair market value of her withdrawal included part of the contribution made during the 89-day period just before the HBP withdrawal, Canada Revenue Agency (CRA) would deny the deduction for \$10,000 of the \$12,000 RRSP contribution.

In addition to not being able to claim the deduction on that portion of the contribution, she also forfeits the RRSP room. In order to reap the maximum benefit of the HBP, Jennifer should either:

- Wait until May 29, 2020 (90 days after the contribution) or later, before making the HBP withdrawal; or
- Withdraw \$25,000 as planned and defer the withdrawal of the balance until 90 days following her contribution.

If any of the above conditions are not met either before or after the HBP withdrawal, you risk the inclusion of the withdrawn funds in your income for that year.

HBP for a related person with a disability

If you are a person with a disability or a relative of a person with a disability (related by blood, marriage, common-law partnership or adoption) and you utilize the HBP withdrawal for one of the following:

- to buy or build a home that is more accessible or better suited to your needs;
- to buy or build a home for a disabled person and the home is more accessible or better suited to the needs of that person; or
- to give the funds to a disabled person to buy or build a home that is more accessible or better suited to the needs of that person.

Repayment of your HBP withdrawals

Generally, you have to repay at least 1/15th of the original HBP balance each year beginning in the second year following the withdrawal. However, you may repay more than the required minimum which will reduce future minimum repayments. Your Notice of Assessment (NOA) sent by CRA each year will indicate the minimum amount that must be repaid in the next year as well as the total balance remaining to be repaid.

If you repay less than the minimum amount required in a particular year, you will have to include the difference as RRSP income in that year.

Example:

Michael signed an agreement of purchase and sale in January 2020 to buy a new home. In February 2020 he withdrew \$20,000 from his RRSP and completed Form T1036.

Since Michael made the withdrawal in 2020 he has a 1 year grace period before payments start. Hence, he must repay \$1,333 (1/15th of \$20,000) to his RRSP in 2022 or the first 60 days of 2023. If he repays only \$1,000, he will have to include \$333 in income for 2022 and pay tax on that amount. He would still be required to pay \$1,333 (1/14th of \$18,667) for the year 2023.

On the other hand, if Michael repays \$10,000 in 2022 instead of the minimum required, this will reduce, but not eliminate, his obligation to continue paying the balance in later years until the withdrawal is nil. In this case his minimum repayment in 2023 or by March 1, 2024 will be \$714 (1/14th of the balance of \$10,000).

You will not receive an RRSP deduction for your HBP repayments, and instead will claim the contribution as a HBP repayment using Schedule 7 when filing your tax return. If you repay less than the minimum amount required in a particular year, you will have to include the difference as RRSP income in that year.

To proceed with the repayment you would first make the contribution to your RRSP account, whether as a lump-sum or in periodic payments throughout the year. When you file

your tax return for that year you would enter the total amount deposited to your RRSP for the applicable period. You would then elect which portion is considered a HBP repayment and which portion, if any, is considered a new RRSP contribution.

If, for example, you were to forget to elect a portion of your RRSP contribution for the HBP repayment CRA would add the HBP repayment to your income for that year, and the RRSP contribution would likely offset the taxes. However this process would reduce your overall RRSP contribution room as HBP repayments do not reduce available room.

As mentioned previously, you can contribute the repayments to any of your RRSPs, including a spousal plan of which you are the annuitant. To make a repayment under the HBP, you have to make contributions to your RRSP in the year the repayment is due or in the first 60 days of the following year. Once your contribution is made, you can designate all or part of the contribution as a repayment under the HBP.

Triggering an immediate repayment of your HBP withdrawals

Any of the following situations may trigger an immediate repayment or inclusion in your income of the outstanding balance of your HBP withdrawal:

- **When you pass away:** Your legal representative has to include as income the outstanding HBP balance on your tax return for the year of death. However, if at the time of death you have a spouse who is a resident of Canada, your spouse and your legal representative can jointly elect to have the HBP balance (less any RRSP contributions designated as an HBP repayment for the year of death) transferred to your spouse. Subsequent HBP annual payments have to be made to your surviving spouse's RRSPs.
- **When your RRSP matures:** You will not be able to make any HBP repayments after the year in which you reach age 71. If the balance is not repaid in full, you will have to include as income, each year, the required annual repayment until the outstanding HBP balance has been reduced to nil.

- **When you become a non-resident:** You have to repay your outstanding HBP balance in full before the date you file your return for the year, or no later than 60 days after you cease to be a Canadian resident, whichever is earlier.

Is the HBP right for you?

The HBP program is an alternative source of cash for funding the initial costs on your new home. However, there are a number of factors you may wish to consider;

If you do not have sufficient funds for a 20% down payment to qualify for a conventional mortgage, you will need to take out a high-ratio mortgage and incur additional costs for Canada Mortgage and Housing Corporation (CMHC) mortgage insurance. Accessing funds through the HBP may enhance your downpayment to meet the required 20% and therefore the additional mortgage insurance would not be required.

The HBP program is an alternative source of cash for funding the initial costs on your new home. However, there are a number of factors you may wish to consider.

If you intend to make only the minimum annual payment on the HBP, it will take 16 years (including the one-year grace period from your HBP withdrawal) before it is fully repaid. This would decrease the tax deferred growth over time within your RRSP and may impact the total value of funds available to fund your retirement.

Lastly, you would need to assess your current and future cash flow needs. If put towards your downpayment, the HBP would have reduced the mortgage interest expense but not eliminated it. Your cash flow would need to accommodate your mortgage payments (principal and interest), property taxes and the annual minimum HBP repayments.

Considerations

Speak with your TD advisor and a qualified tax advisor to understand if using the HBP will be appropriate for you.



The information contained herein has been provided by TD Wealth and is for information purposes only. The information has been drawn from sources believed to be reliable. The information does not provide financial, legal, tax or investment advice. Particular investment, tax, or trading strategies should be evaluated relative to each individual's objectives and risk tolerance. TD Wealth represents the products and services offered by TD Waterhouse Canada Inc., TD Waterhouse Private Investment Counsel Inc., TD Wealth Private Banking (offered by The Toronto-Dominion Bank) and TD Wealth Private Trust (offered by The Canada Trust Company). All trademarks are the property of their respective owners. ® The TD logo and other trade-marks are the property of The Toronto-Dominion Bank.