Wealth Management

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

Home buyer's plan

A way to withdraw from your RRSP to buy or build a home

Most withdrawals from your registered retirement savings plan (RRSP) are considered taxable income in the year of withdrawal, but there are some notable exceptions, including the home buyers' plan (HBP). Under the HBP, it's possible to withdraw up to $60,000 from an RRSP to buy or build a home without triggering immediate tax consequences. The funds must be repaid, but as there's no interest charged, it's like an interest-free loan to yourself. You will need to meet certain rules and conditions to participate in the HBP.

Any reference to a spouse in this article also includes a common-law partner.

Please contact us for more information about the topics discussed in this article.

Participating in the HBP for an individual without a disability

If you do not have a disability and you are not purchasing the home for a related person with a disability, you must meet the following conditions to participate in the HBP:

- You're a first-time home buyer;
- You've entered into a written agreement to buy or build a qualifying home;
- You intend to occupy the qualifying home as your principal residence no later than one year after buying or building it; and
- You must be a resident of Canada when you withdraw funds from your RRSP under the HBP and up to the time a qualifying home is bought or built.

Are you a first-time home buyer?

You must be a first-time home buyer to withdraw funds from your RRSP under the HBP unless you're a person with a disability or you're helping a related person with a disability buy or build a qualifying home.

You're considered a first-time home buyer if you or your spouse have not owned a home that you occupied as your principal residence at any time during the period that begins January 1 of the fourth year prior to the year of your RRSP withdrawal and ends 31 days before the date you made your RRSP withdrawal. For example, if you made a withdrawal on August 31, 2024, you could not have owned a home that you occupied as your principal residence from January 1, 2020, through to July 31, 2024.

If you have a breakdown in marriage

If you would otherwise not qualify as a first-time home buyer, you will be considered a first-time home buyer if, at the time of withdrawal:

- You're living separate and apart from your spouse as a result of a breakdown in your marriage or common-law partnership and you've been living separate and apart for at least 90 days;
- You began living separate and apart from your spouse in the year of withdrawal or in the four preceding calendar years;
- You dispose of your previous principal residence no later than two years after the end of the year in which the HBP is made. Where you're purchasing the share of the residence owned by your spouse, this criteria is waived. The existing rule that requires you to not acquire the home more than 30 days before making the HBP withdrawal is also waived in this case; and
- You're not living with a new spouse in a principal residence owned by the new spouse.

You will still need to meet the other criteria under the existing rules to qualify under the HBP.

Participating in the HBP for an individual with a disability

To participate in the HBP as a person with a disability or for a related person who has a disability, you or the related person must be entitled to the disability tax credit for federal income tax purposes. The following conditions must also be met:

If you're the person with a disability:

- You've entered into a written agreement to buy or build a qualifying home;
- You intend to occupy the qualifying home as your principal residence no later than one year after buying or building it; and
- The home is better suited to your needs than your current home.

If you're purchasing the home for a related person:

- You have a written agreement to buy or build a qualifying home for a related person with a disability or you want to help a related person with a disability buy or build a qualifying home and the related person with a disability has entered into the written agreement; and
- The related person with a disability intends to occupy the qualifying home as their principal residence; and
- The home fits the needs of the person with the disability better than their current home.

The qualifying home must be in Canada and includes single-family homes, semi-detached homes, townhouses, and condominium units. A share of the capital stock of a cooperative housing corporation that entitles you to possess and gives you an equity interest in a housing unit in Canada also qualifies.

Qualifying home

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Making a withdrawal under the HBP

After April 16, 2024, if the HBP conditions are met, you can withdraw up to $60,000 (increased from $35,000) from your RRSP without triggering immediate tax consequences. If you wish to withdraw more than $60,000, the excess would be considered a regular withdrawal. As such, the excess is subject to withholding tax and is taxable as income in the year of withdrawal.

Each time you withdraw funds from your RRSP under the HBP, you must complete Form T1036, Home Buyers' Plan (HBP) Request to Withdraw Funds from an RRSP. The financial institution administering the RRSP should not withhold tax from your withdrawal.

After making an HBP withdrawal, you must file an annual income tax return until you've repaid the full amount or included the amount in your income for tax purposes.

Timing your withdrawal from your RRSP

If you wish to withdraw funds from your RRSP under the HBP, it's important to understand the timing requirements:

- You must intend to occupy the qualifying home as your principal place of residence, no later than one year after buying or building it; and
- You must buy or build the qualifying home before October 1 of the year after the year you made the withdrawal from your RRSP. You're considered to have built a qualifying home on the date it becomes habitable.

For example, if you withdraw from your RRSP under the HBP on June 1, 2024, you must buy your home by October 1, 2025; or, if you build the home, it must be habitable by that date.

If you do not meet the noted conditions before October 1 of the relevant year, you can cancel your participation in the HBP or buy or build a different home (that meets the same conditions as a qualifying home) before October 1. You may be able to obtain an extension to this time period if you meet certain conditions. For details of these conditions, please visit the Canada Revenue Agency (CRA) website.

Other RRSP withdrawal conditions and considerations

- If you and your spouse both qualify to participate in the HBP, each of you may withdraw up to $60,000 from your own RRSPs for a combined maximum withdrawal of $120,000.
- You can make a single withdrawal or a series of withdrawals in the same calendar year.
- You must receive, or be considered to have received, all HBP withdrawals in the same calendar year. January of the year following the year you made the withdrawal is considered to be within the same calendar year.
- The RRSP contribution you intend to withdraw must have been contributed to your RRSP at least 90 days before you withdraw it under the HBP. If the contributions are not in your RRSP for 90 days, you may not be able to deduct the RRSP contribution for any tax year.
- Neither you, your spouse or the related person with a disability for whom you buy or build the qualifying home can own the home for more than 30 days before you make the RRSP withdrawal.
- If you have previously participated in the HBP, you must meet all of the HBP withdrawal conditions and your HBP balance must be zero on January 1 of the year in which you wish to make an HBP withdrawal.

If you don't meet all of these conditions during the period when you're participating in the HBP, your RRSP withdrawal will not qualify as an HBP withdrawal and will be included in your income for tax purposes in the year of the withdrawal.

Repayment under the HBP

Generally, you have up to 15 years to make repayments to your RRSP. The amount you must repay in a particular year is calculated as your HBP balance divided by your remaining repayment period. For example, your first required repayment amount is generally the amount you withdrew under the HBP divided by 15. In the following year, the repayment amount would be your remaining HBP balance divided by 14.

To make a repayment to your RRSP under the HBP, you must make a contribution to any RRSP of which you are the annuitant. Repayments do not need to be made to the same RRSP that the withdrawal came from, or even the same financial institution.

Generally, you have up to 15 years to make repayments to your RRSP. The amount you must repay in a particular year is calculated as your HBP balance divided by your remaining repayment period. For example, your first required repayment amount is generally the amount you withdrew under the HBP divided by 15. In the following year, the repayment amount would be your remaining HBP balance divided by 14.

Your repayment period begins in the fifth calendar year following the year you made your HBP withdrawal, if you made your first withdrawal between January 1, 2022, and December 31, 2025. Otherwise, your repayment period begins in the second calendar year following the year you made your HBP withdrawal. You must make the contribution in the year the repayment amount is due or within the first 60 days of the following year. For example, if you made your HBP withdrawal in 2024, your first repayment needs to be made in 2029 or no later than the first 60 days of 2030.

Reporting under HBP

Repayments are tracked through annual tax reporting. Your financial institution will issue you an RRSP contribution receipt for the amount of your contribution. The contribution receipt will not indicate whether any or all of the amount contributed is a repayment of an HBP withdrawal. When you file your annual tax return, you designate how much of the RRSP contribution represents a repayment under the HBP. The amount you designate as an HBP repayment cannot be deducted on your income tax return and does not affect your RRSP deduction limit.

You can still make an HBP repayment even if your RRSP deduction limit for the year is zero. You're required to continue making your scheduled repayments even if you sell your home.

Your HBP balance is the total eligible withdrawals you've made from your RRSPs minus the total amounts you've designated as HBP repayments and minus amounts included in your income (because you didn't repay them to your RRSPs) in previous years.

The CRA will send you an HBP statement of account with your notice of assessment or reassessment showing:

- The amount you've repaid, including the amounts you included in your income if you did not make a payment;
- Your remaining HBP balance; and
- The repayment amount required for the following year.

Making an early repayment

If you make an early repayment under the HBP (a repayment before the first year when an HBP repayment is required), the amount you repay will reduce the amount you have to repay for the first year a payment is required. If the early repayment exceeds the amount that needs to be repaid in the first year, the excess amount will reduce your HBP balance and consequently your repayment amounts over the entire repayment period.

Paying more than your annual repayment

If you make an HBP repayment that's more than the required annual amount, this will reduce your HBP balance and consequently your repayment amounts in future years. You will still continue to make payments over a 15-year period but your minimum annual payments will be adjusted accordingly.

Paying less than your annual repayment

If you make a repayment that's less than the required annual amount, or if you make no payment at all, you will have to include the shortfall in your income for the year the payment was due. The shortfall is the difference between the required repayment amount and the amount you designate as an HBP repayment. This amount is treated as an RRSP deregistration, and it can never be repaid or contributed to your RRSP.

Your HBP balance will be reduced by the amount of your repayment plus the amount that's included in your income (i.e., the required repayment amount).

If you pass away

If you die while participating in the HBP, your legal representative must include your HBP balance in your income on your final tax return. If you made RRSP contributions in the year of your death, your legal representative can designate them as HBP repayments and deduct them from your HBP balance. This will reduce the amount included in your income on your final tax return.

If you have a surviving spouse who's a resident of Canada, your spouse and your legal representative can jointly elect to continue making HBP repayments to your spouse's RRSP for the remaining repayment period as if they'd made the original HBP withdrawal. Your surviving spouse effectively assumes responsibility for the remaining period of participation in the HBP. In such a case, the HBP balance is not included in your final tax return.

If you become a non-resident

If you become a non-resident after receiving funds but before you buy or build a home, you can cancel your participation in the HBP. To cancel your participation in the HBP, you'll need to repay the amount you withdrew from the RRSP. The due date for the cancellation payment is as follows:

- If you were a non-resident at the time you filed your tax return for the year you received the funds under the HBP, you must repay the withdrawal by the earliest of the following dates:
    - The date you file your income tax return for the year you made the withdrawal;
    - December 31 of the year after the year you made the withdrawal.
- If you became a non-resident after you filed your tax return for the year you received the funds under the HBP, you must repay the withdrawal by December 31 of the year after the year you made the withdrawal.

If you do not repay the full amount of your withdrawal, you'll need to include the amount you didn't repay in your income for the year you withdrew the funds.

If you become a non-resident after you buy or build a home, you can repay the HBP balance to your RRSPs before the date you file your income tax return for the year you became a non-resident or up to 60 days after you become a non-resident, whichever is earlier. Alternatively, you can include your HBP balance in your income on your tax return for the year you become a non-resident.

If you make an HBP repayment that's more than the required annual amount, this will reduce your HBP balance and consequently your repayment amounts in future years. You will still continue to make payments over a 15-year period but your minimum annual payments will be adjusted accordingly.

If you turn age 71 in the year

The year you turn 71 is the last year you can make contributions to an RRSP and, likewise, the last year you can repay all or part of your HBP balance. In the year you turn age 71, you have three options:

- Repay your remaining repayment balance under the HBP to your RRSP;
- Make a partial repayment to your RRSP. The remaining HBP balance at the beginning of the year you turn age 72 will be divided by the number of years remaining in your repayment period and that amount will be included in your income for each year in the remaining repayment period; or

- Make no repayment to your RRSP. Your HBP balance at the beginning of the year you turn age 72 will be divided by the number of years remaining in your repayment period and that amount will be included in your income for each year in the remaining repayment period.

Contributions you can't designate as repayments

Some contributions to an RRSP, Pooled Registered Pension Plan (PRPP) or Specified Pension Plan (SPP) cannot be designated as an HBP repayment.

If you make a contribution to an RRSP or SPP of which your spouse is the annuitant, you can't designate this as a repayment under the HBP. Similarly, if you make a direct transfer to your RRSP, PRPP or SPP from a registered pension plan (RPP), deferred profit-sharing plan (DPSP), registered retirement income fund (RRIF), SPP or another RRSP or PRPP, you can't designate these transfers as HBP repayments.

If you designate an RRSP contribution as a repayment under the Lifelong Learning Plan (LLP) for the year, you can't also designate this as an HBP repayment.

If you make a contribution in the first 60 days of the year and deduct it on your income tax return for the previous year, you can't designate it as an HBP repayment for the year in which you made the contribution. Likewise, if you make a contribution that you designate as an HBP or LLP repayment for the previous year, you can't designate it as an HBP repayment for the year of the contribution.

If you make a contribution of an eligible retiring allowance, you can't designate that contribution as an HBP repayment.

Other matters to be aware of

- As mentioned, you must have entered into a written agreement to buy or build a qualifying home, which you intend to occupy as your principal place of residence, no later than one year after buying or building it. When you've satisfied that condition, there's no minimum period of time during which you must live in the home. Even if you sell the home, you can continue to make repayments following your repayment schedule.
- You generally can't make an HBP withdrawal from a locked-in RRSP, group RRSP or PRPP.

If you're thinking of buying or building a home, you may be able to use the HBP to effectively borrow up to $60,000 from your RRSP, interest-free. In addition to the considerations mentioned, you'll want to consider the impact to your RRSP of removing the funds and giving up the tax-sheltered growth.

- Your spouse can participate in the HBP by withdrawing from a spousal RRSP, assuming all of the criteria discussed earlier are met. The annuitant of the spousal RRSP who makes a withdrawal under the HBP must be the one to make the repayments. Where the required repayment is not made, attribution does not apply and the annuitant of the spousal RRSP will have a taxable income inclusion.
- As long as you meet all of the conditions to participate in the HBP, you can use the funds you withdraw under the program for any purpose. The funds do not have to be used to purchase or build the qualifying home.

Conclusion

If you're thinking of buying or building a home, you may be able to use the HBP to effectively borrow up to $60,000 from your RRSP, interest-free. In addition to the considerations mentioned, you'll want to consider the impact to your RRSP of removing the funds and giving up the tax-sheltered growth. Speak with a qualified tax advisor to see if you can take advantage of the HBP to help you or a related person with a disability purchase a home.

This article may contain strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax or insurance advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax, legal and/or insurance advisor before acting on any of the information in this article.

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