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FHSA quick tips

Tip #1: You don't necessarily have to be a first-time homebuyer to open an FHSA

You are eligible to open a First Home Savings Account (FHSA) if you are considered a first-time homebuyer. That means you or your spouse/common-law partner have not owned a home where you lived this year or at any time in the preceding four calendar years. Even if you or your spouse/common-law partner have purchased a home before, if it did not occur in the previous four years, technically, you are considered a "first-time homebuyer" and you can both open FHSAs.

You also must be a Canadian resident over the age of majority, who will not be older than the age of 71 on December 31st of the year the account is opened to open an FHSA.

Tip #2: Maximize tax benefits

The FHSA combines the features of a Registered Retirement Savings Plan (RRSP) and a Tax-Free Savings Account (TFSA). It works like an RRSP when contributing and acts like a TFSA when making withdrawals. This means contributions are tax-deductible while qualifying withdrawals are non-taxable. What's more, you can invest in the same sort of investments as your RRSP or TFSA, and the investment growth is tax-free on qualifying withdrawals. This means your money will have the opportunity to grow faster in an FHSA than it would in a traditional savings account.

Tip #3: Don't wait to open an FHSA

You can contribute a maximum of \$8,000 to your FHSA a year, up to a lifetime limit of \$40,000. If you are not able to make contributions in a given year, you can carry forward any unused contribution room to the next year, up to a maximum of \$8,000 for a total contribution of \$16,000 for the year. Contribution room only starts to accumulate once you open your FHSA, so consider opening one this year, even if you don't make a contribution right away.

If you make a contribution to your FHSA, you do not have to claim a deduction for that year. Instead, you can carry forward un-deducted contributions indefinitely and deduct them in a later year. This approach can be taken if you want access to tax-free growth immediately, but you expect to be in a higher tax bracket in a future tax year and would better benefit from a deduction then.

Tip #4: Set up automatic contributions to stay on track toward your home-owning goal

By setting up a regular investment plan, funds can be withdrawn regularly and automatically from your account and deposited into your FHSA. Ideally, those funds are then used to purchase whatever investment solutions you have in your FHSA. This makes automatic contributions a smart way to save, but also avoids market timing by buying regularly, in turn taking advantage of market downturns to buy more, while buying less when prices are high.

How different accounts can help you save for a home

	Tax deductions	Tax-free/ tax-deferred growth?	Tax-free withdrawals to buy a home?	No payment required?
TFSA	✗	✓	✓	None, but can recontribute the amount withdrawn
RRSP	✓	✓	Yes, up to $35,000 through Home Buyers' Plan (HBP)	Must repay within 15 years
FHSA	✓	✓	✓	✓

Tip #5: Help family members purchase their first home

Even if you, personally, already have a home, the FHSA may still benefit your family members. You can gift money otherwise exposed to your higher tax rate to your child's or grandchild's FHSA to help them earn tax-free investment income. You can also gift funds to your spouse/ common-law partner and normal attribution rules do not apply (assuming your spouse makes future qualifying withdrawals).

Tip #6: Use your FHSA in conjunction with your Home Buyers' Plan (HBP)

The FHSA can work together with the HBP through your RRSP to increase the amount you have available for a home down payment. Under the HBP, you can withdraw up to $35,000 from your RRSP to buy or build a home without triggering immediate tax consequences. You can make both FHSA and HBP withdrawals for the same qualifying home purchase, maximizing withdrawals up to $75,000 in capital plus any growth in the FHSA to use towards a purchase of a home.

Tip #7: Use your FHSA to boost your RRSP/RRIF

15 years after opening, or at 71, you have to close your FHSA. At this point, if you haven't purchased a home, you can transfer assets from your FHSA to your RRSP or Registered Retirement Income Fund (RRIF) tax-free. Essentially you can gain additional RRSP contribution room. You can also transfer any unused FHSA savings tax-free to your RRSP/RRIF (eventual RRSP/RRIF withdrawals will be taxed as usual).

Tip #8: Consider designating your spouse/common-law partner as the successor account holder on your FHSA

If named as the successor holder, your surviving spouse/common-law partner would become the new holder of the FHSA immediately upon your death, provided your surviving spouse/common-law partner meets the eligibility criteria to open an FHSA. In this case, the FHSA can maintain its tax-exempt status.

If you name anyone other than your spouse/common-law partner as the beneficiary of the FHSA, the funds will need to be withdrawn following your death and paid to your named beneficiary. Amounts paid to your beneficiary will be included in their income, and thus, subject to withholding tax.

For more information about opening up an FHSA, contact your advisor.