Hogg & Hauber Private Wealth Management

RBC Dominion Securities | RBC Wealth Management
17120 Leslie Street, Suite 200, Newmarket, ON L3Y 8K7

Wealth Management
Dominion Securities

April 2023

The First Home Savings Account (FHSA) is here!

A new registered account to help more Canadians enter the housing market, and it's now live

Michael Hogg
Senior Portfolio Manager
michael.hogg@rbc.com
(905) 895-4152

Derek Hauber, CIM®, CFP®
Portfolio Manager
derek.hauber@rbc.com
(905) 895-4902

Christina Pellegrini, CIM®
Associate Investment Advisor
christina.pellegrini@rbc.com
(905) 841-1625

Dennis Tsai
Associate
dennis.tsai@rbc.com
(905) 895-2132

Michele Caughey
Associate
michele.caughey@rbc.com
(905) 895-5251

Tatijana Gamble
Administrative Assistant
tatijana.gamble@rbc.com
(905) 895-4920

www.hogghauberwealth.com

What is the FHSA?

The first home savings account (FHSA) is a new registered account to help individuals save up to **$40,000** on a tax-free basis to purchase their first home.

This new account is a mix between an RRSP and a TFSA. Like an RRSP, contributions you make to a FHSA are tax-deductible. Like a TFSA, withdrawals (including investment income earned) to purchase your first home are tax-free.

Who can open a FHSA?

- You must be a resident of Canada, at least 18 years of age, and not turning age 72 or older in the year
- You must be a **first-time home buyer**. You will not be considered a first-time home buyer if you lived in a home owned by your spouse during the relevant period if they are still your spouse when you open a FHSA. Conversely, if you lived in a home owned by your spouse during the relevant period but are divorced from your spouse at the time you open a FHSA, you will be considered a first-time home buyer.

A **first-time home buyer** is defined as someone who, along with their spouse, has not owned a home that has been lived in as the primary residence at any time during the calendar year, or in the four preceding calendar years.

Why is this beneficial?

The FHSA combines the tax-free growth and withdrawals of a TFSA, with the tax deductibility of an RRSP. Income and capital gains earned in a FHSA are not included in your annual income. This means the income and capital gains can continue to grow and compound in the FHSA on a tax-free basis.

The FHSA **can** be used in conjunction with the RSP Homebuyers' Plan withdrawal for the same qualifying home purchase. If you maximize withdrawals from both programs, you will be able to access $75,000 in capital (plus any growth in the FHSA) to use towards a purchase of a home.

How does the FHSA work?

Contributions, withdrawals, transfers, and more

Contributions

- You will be able to contribute **$8,000 annually** to your FHSA, with a lifetime limit of **$40,000**. The full $8,000 will be available for 2023
- You will be able to carry-forward your unused annual contribution limit, up to a maximum of $8,000. For example, if you contribute $5,000 to your FHSA in 2023, you'll be allowed to contribute $11,000 in 2024 → $8,000 for 2024, plus the remaining $3,000 from 2023
- Carry-forward amounts only start accumulating after you open a FHSA. Therefore, if you're a first-time home buyer, you could consider opening a FHSA immediately, even if you don't have the funds to contribute
- You will be able to claim a deduction for contributions made to a FHSA during a calendar year, which reduces the amount of your taxable income. You do not have to claim a deduction for that year – like RRSP deductions, you'll be able to carry forward undeducted contributions indefinitely and deduct them in a later year.
- As the FHSA holder, only you can claim a deduction for contributions made to your own FHSA. Spousal contributions are not permitted. However, you can gift funds to your spouse and have them contribute the funds into their own FHSA.

Withdrawals

1. Qualifying withdrawals – to make a qualifying withdrawal, you must:
(a.) Be a first-time home buyer at the time you make the withdrawal, and
(b.) Have a written agreement to buy or build a qualifying home before October 1 of the year *following* the year of withdrawal, and intend to occupy the home as your principal residence within one year after buying or building it. A qualifying home is a housing unit located in Canada.

Qualifying withdrawals can be made either as a single withdrawal or a series of withdrawals. No taxes will be withheld on qualifying withdrawals.

2. Non-qualifying withdrawals – if you make a withdrawal that's not qualifying under the criteria above, the withdrawal will be included in your income. Taxes will be withheld on non-qualifying withdrawals, like taxable RRSP withdrawals. Non-qualifying withdrawals will not re-instate your annual or lifetime contribution limit

Transfers

You can transfer funds from an FHSA to another FHSA, an RRSP or a RRIF on a tax-free basis, without impacting your contribution limits.

You can also transfer funds from your RRSP to your FHSA on a tax-free basis, (subject to annual and lifetime contribution limits). This transfer would not be deductible and would also not reinstate your RRSP contribution room.

If you are **not** able to use the funds in your FHSA to purchase a qualifying home, you can transfer into an RRSP or RRIF on a tax-free basis. You can also withdraw these savings, but the withdrawal will be taxable.

If you experience a breakdown of your marriage or common-law partnership, you may transfer funds directly from your FHSA to your former spouse's FHSA, RRSP or RRIF. These transfers would not re-instate any FHSA contribution room for you and would not use any contribution room of your former spouse.

Other features

- You will need to close your FHSA by December 31 of the year you turn age 71, or by December 31 of the 15th anniversary from the account opening, if you have not used the funds to purchase a qualifying home
- Over-contributions are subject to a 1% penalty on the highest excess amount, for each month you are in an over-contribution position
- Qualifying withdrawals are not considered in determining eligibility for income-tested benefits or credits, such as the Canada Child Benefit or GST credit
- If you move from Canada, you will be allowed to contribute to your existing FHSA after becoming a non-resident, but you will not be able to make a qualifying withdrawal as a non-resident
- If you name anyone other than your spouse as the beneficiary of your FHSA, the funds will need to be withdrawn following your death

If you would like further information or are interested in opening a **First Home Savings Account**, please contact us to help get you started.

Wealth Management
Dominion Securities