Tax-free savings for first-home buyers

First Home Savings Account (FHSA)

Concentra TRUST | TCU Financial Group

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What is an FHSA?

Introduced in April 2023, the First Home Savings Account (FHSA) is a tax-advantaged registered plan designed to help Canadian residents save for their first home.

Contributions to an FHSA are tax-deductible and earnings are tax-sheltered in the plan. Qualifying withdrawals from an FHSA for a qualifying first home purchase are non-taxable.

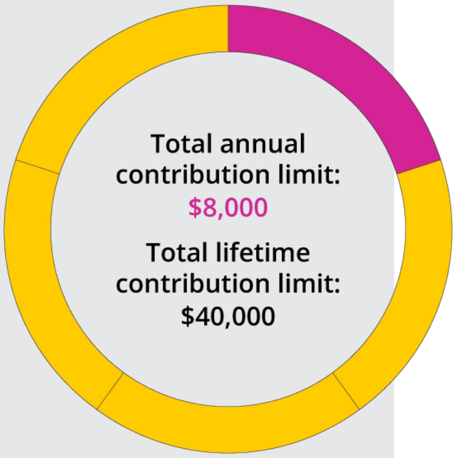
Who can open an FHSA?

An individual can open an FHSA if they are:

- 18 years of age or older
  - Must be age of majority for province of residence and cannot be older than age 71 on December 31 of the year the FHSA is opened.
- A Canadian resident with a valid SIN
- A first-time home buyer
  - They did not, at any time in the calendar year before the FHSA is opened or in the previous four years, live in a qualifying home (or what would be a qualifying home, if located in Canada) as their principal place of residence that they owned or jointly owned, or that their spouse or common-law partner (at the time the FHSA is opened) owned or jointly owned.

Features & benefits

- Contributions reduce taxable income
- Savings grow tax-free in the plan
- Spouses or common-law partners, who are eligible to open an FHSA, can each contribute to their own FHSA and use the funds to buy the same home
- Tax-free withdrawal for qualifying home purchase
- Ability to contribute to an FHSA and participate in the Home Buyers' Plan at the same time
- No repayment required for withdrawal to purchase a qualifying home
- Unused funds can be transferred to an RRSP or RRIF to continue tax-sheltered status



Contribution guidelines

The individual who opened the FHSA, as the holder of the plan, can contribute, or transfer funds from their RRSP, to an FHSA until the end of their participation period. The annual limit is $8,000 and the lifetime limit is $40,000.

Spouses/common-law partners can each open their own FHSA and use their FHSAs for the same home purchase. As a couple, their annual combined participation room would be $16,000 ($8,000 x 2), with a lifetime maximum of $80,000 ($40,000 x 2). Spouses/common-law partners cannot contribute to each other's FHSAs.

FHSA participation room

A holder's FHSA participation room is the maximum amount they can contribute, or transfer from their RRSPs, to their FHSAs. A holder can have more than one FHSA; however, the total amount contributed/transferred to all FHSAs cannot exceed their FHSA participation room for the year.

A holder's FHSA participation room in the year they open their first FHSA is $8,000, and $8,000 of FHSA participation room will be added each year until the holder reaches their maximum participation period or the lifetime limit is reached.

The holder's FHSA participation room will be provided on their Canada Revenue Agency (CRA) notice of assessment or reassessment each year.

Unused FHSA participation room

If the holder's contributions and transfers from their RRSPs are less than their FHSA participation room in a year, the unused amount at the end of the year can be carried forward, up to a maximum of $8,000.

> *For example, if a holder contributes $5,000 in the year the FHSA is opened, they will be allowed to contribute $11,000 the following year ($8,000, plus $3,000 carries forward).*

Exceeding FHSA participation room

If a holder's contributions and transfers from RRSPs exceed their FHSA participation room, the excess amount is subject to 1% per month tax on the highest excess amount each month the excess remains in the FHSA. An excess amount is reduced or eliminated as additional FHSA participation room becomes available, or the holder may make a designated withdrawal or a designated transfer to an RRSP/RRIF (a designated withdrawal/transfer is not taxable).

Participation period

A holder's participation period begins when they open their first FHSA and ends on the earliest of:

- December 31 of the 15th anniversary of the date they opened their first FHSA
- December 31 of the year they turn 71; or
- December 31 of the year following their first qualifying withdrawal

Funds remaining in the holder's FHSAs at the end of the participation period must be transferred on a tax-deferred basis to an RRSP/RRIF or withdrawn on a taxable basis.

Tax deduction

The holder can claim a deduction for contributions made to their FHSA. Contributions to an FHSA are similar to RRSP contributions, as they may be claimed as a tax deduction for the year of contribution or may be deducted in a subsequent year.

The contribution period for FHSAs is January 1 to December 31. Unlike RRSPs, contributions made within the first 60 days of the year cannot be deducted for the previous tax year.

Amounts transferred from an RRSP are not deductible. Contributions made after a qualifying withdrawal cannot be deducted for any year.

Withdrawals

Qualifying withdrawal (non-taxable)

The holder may make a qualifying withdrawal if certain conditions are met:

- Must qualify as a first-time home buyer
  - A holder is considered a first-time home buyer for this purpose if at any time during the calendar year before the withdrawal (except the 30 days immediately before the withdrawal) or at any time during the preceding four calendar years, the holder did not live in a qualifying home (or what would be a qualifying home if located in Canada) as their principal residence that they owned or jointly owned.
- Must be a resident of Canada
- Must have a written agreement to buy or build a qualifying home in Canada before October 1 of the year following the year of their first qualifying withdrawal
- Intend to occupy the qualifying home as their principal residence within one year after buying or building the home
- Cannot have acquired the qualifying home more than 30 days before making the withdrawal
- Must complete CRA form RC725 Request to Make a Qualifying Withdrawal from your FHSA

No tax is withheld on a qualifying withdrawal and the amount withdrawn is not considered taxable income. A qualifying withdrawal does not restore FHSA participation room.

Taxable withdrawal

A withdrawal that is not considered a qualifying withdrawal or designated withdrawal of an excess amount is subject to immediate withholding tax and must be reported by the holder as taxable income. FHSA participation room is not restored.

Transfers

Transfer in

The holder may transfer the following to an FHSA:

- An RRSP under which the holder is the annuitant (FHSA participation room required)
- Another FHSA in the name of the holder

Transfer out

Amounts held in an FHSA may be transferred to:

- Another FHSA in the name of the holder
- An RRSP or RRIF under which the holder is the annuitant

Relationship breakdown

- Amounts held in an FHSA may be transferred directly to an FHSA, RRSP, or RRIF of the holder's spouse/common-law partner in the event of relationship breakdown, as required by a decree, order, or judgment of a court, or under a written separation agreement.
- Transfers from an RRSP or RRIF to an FHSA due to relationship breakdown are not permitted.

Non-resident holders

If a holder subsequently becomes a non-resident of Canada, they may continue to contribute to their FHSA. However, they would not be eligible for a qualifying withdrawal. Any withdrawals would be subject to withholding tax and would be taxable to the holder.

Death of a holder

A holder may appoint their spouse/common-law partner as a successor holder of an FHSA. Provincial legislation allowing beneficiary designations on an FHSA has not been established in all provinces. As of publication, only residents of Nova Scotia and British Columbia may designate a beneficiary on an FHSA. If no successor holder is appointed or no beneficiary is designated on the FHSA, funds are paid to the deceased holder's estate.

Use of FHSA as security for a loan not permitted

FHSAs trusteed by Concentra Trust cannot be used as security for a loan, as it would result in tax consequences for the holder.

How does an FHSA compare to a TFSA or RRSP?

Features	FHSA	TFSA	RRSP
Purpose	Down payment for a home	General short- or long-term savings	Retirement savings
Contributions are tax-deductible	✓	✗	✓
Contribution limit	✓	✓	✓
Contribution limit based on earned income	✗	✗	✓
Spousal contributions allowed	✗	✗	✓
Withdrawals for qualifying home are tax-free	✓	✗	✓ (under Home Buyers' Plan)
Repayment of withdrawal for qualifying home required	✗	✗	✓ (under Home Buyers' Plan)
Maximum age limit	✓	✗	✓