Arriving Soon: The FHSA and More...

This year's federal budget proposed a new tool intended to help support new home buyers. Expected to begin in 2023, the First Home Savings Account (FHSA) is a registered plan that combines the tax benefits of the RRSP and TFSA.

The FHSA will allow Canadian residents over age 18 to contribute up to $8,000 per year, to a maximum contribution of $40,000, towards their first home.[1] Contributions will be tax deductible, similar to the RRSP, and qualified withdrawals will be tax free, similar to the TFSA. The FHSA can remain open for 15 years.

One constraint is that the proposed rules do not permit use of the existing Home Buyers' Plan (HBP) alongside the FHSA. The HBP allows first-time buyers to withdraw up to $35,000 from the RRSP, subject to repayment in 15 years and other conditions. This has prompted the question: will the FHSA or RRSP/HBP be a better savings vehicle?

All things equal, the FHSA's structure appears to be more beneficial given the tax-free benefit for a qualified withdrawal when funds are used to purchase a first home. However, whether the FHSA or RRSP/HBP offers greater benefits is likely to depend on various factors, including available income/cash flow, timing of a home purchase, marginal tax rate, current/potential tax bracket, other income-tested benefits (such as child benefit payments), etc.

Under the proposed rules, there will be an option to move funds from one's RRSP to the FHSA, subject to FHSA annual and lifetime contribution limits; however, these transfers would not restore an individual's RRSP contribution room. If not used for a first-home purchase, the FHSA may be transferred to the RRSP after 15 years without affecting RRSP contribution room.

In thinking ahead, there may be ways to help maximize the value of the FHSA. Consider starting early to take advantage of compounding over time, as the FHSA can stay open for 15 years. If the FHSA isn't used, funds can be transferred to the RRSP (or taxes paid on withdrawals). As well, try to maximize the annual limit. The more you save from the onset, the greater potential benefit you may achieve from compounded growth. Annual contributions are limited to $8,000 and unused contribution room does not carry forward.

Not Just for Young Canadians?

The recent budget proposals suggest that there is no age limit to invest in the FHSA. If this stands, there may be opportunities available to older Canadians.[2] As details are finalized and legislation is passed, this will become clearer. More to come...

1.liberal.ca/housing/afford-a-downpayment-faster/; 2. "Three ways to make the most of the new tax-free savings account for home buyers," Erica Alini, The Globe and Mail, April 30, 2022, B15.

Select Budget Changes That May Impact You

Multigenerational Home Renovation Tax Credit. This proposed refundable tax credit offers up to $7,500 to claim up to 15 percent of $50,000 in eligible costs incurred to construct a secondary suite for a senior or adult with a disability.

Residential Property Flipping Rule. Under proposed rules, any profits on property sold that is held for less than 12 months would be subject to taxation as business income. As well, the Principal Residence Exemption would not be available. Certain exemptions will apply, so stay tuned for more details.

Small Business Deduction. The budget proposes to change the formula such that access to the small business deduction will not be reduced to nil until the corporation has taxable capital of $50 million.

Minimum Tax for High Earners. The current Alternative Minimum Tax regime will be revisited with a view to ensuring high-income earning Canadians pay a minimum level of tax. Further details are expected in the 2022 fall economic update.

At the time of writing, these proposals have not been enacted into law. For greater detail, please see the Government of Canada website: https://budget.gc.ca/2022/home-accueil-en.html