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The First Home Savings Account (FHSA)

A new way to save for a first home

A First Home Savings Account (FHSA) is a registered plan that allows prospective first-time Canadian home buyers, to save for their first home, tax-free. Work with your advisor to establish your FHSA and start saving for your future home.

Like a Registered Retirement Savings Plan (RRSP), contributions may be deducted from taxable income. Like a Tax-Free Savings Account (TFSA), contributions and any investment returns can be withdrawn tax-free.

Main features:

The FHSA is a tax-sheltered savings/investment account that allows individuals to contribute up to $8,000 per year toward the purchase of a qualifying home.

- Eligible investments include those that are approved for other registered plans.
- There is a lifetime contribution limit of $40,000.
- Contributions can only be made in the calendar year. Unlike RRSPs, contributions made in first 60 days of the year cannot be deducted on previous year's tax return.

An FHSA should be closed before the maximum participation period ends to avoid unintended tax consequences. The maximum participation period begins when the first FHSA is opened and ends when the earliest of the following events occur:

- December 31st of the year following the first qualifying withdrawal,
- December 31st of the 15 year anniversary of opening the first FHSA, or
- December 31st of the year the account holder reaches age 71.

Why consider an FHSA as part of a financial plan:

- Individuals can contribute up to $40,000 for a first home purchase.
- Carry forward unused contribution room up to a maximum of $8,000 from the prior years for as long as the account is open.
- Reduce an individual's tax bill and carry forward undeducted contributions indefinitely. These deductions are in addition to any Registered Retirement Savings Plan (RRSP) contributions made in a year.
- Pay no taxes on any investment earnings or withdrawals used to purchase a qualifying home.
- Complements the Home Buyers' Plan (HBP), which can provide individuals with an additional $35,000 for a qualifying first home purchase per individual.

At the end of the maximum participation period, proceeds may be transferred to the account holder's RRSP or RRIF to avoid immediate tax consequences. Otherwise, the proceeds of the FHSA will be taxed as income. It is important to note that another FHSA cannot be opened after the maximum participation period has ended for the individual.

To be eligible, an individual must be:

- A Canadian resident.
- A first-time home buyer, which means they have not lived in a home owned by them or their spouse or common-law partner in the year the FHSA is opened and the previous four years.
- Between the ages of 18 and 71, with a valid social insurance number (SIN).

Contributions and deductions:

- Maximum annual contribution limit for an FHSA is $8,000 per individual.
- Contributions made to an FHSA are tax-deductible from income.
- An individual can open more than one FHSA, however the contribution limits are by individual and not by account.
- FHSA funds can be invested in a variety of savings and investment vehicles, including cash, guaranteed investment certificates (GICs), mutual funds, stocks, bonds and exchange-traded funds (ETFs). Any income or gains earned within the account are tax-free, making the FHSA an attractive savings vehicle for first-time home buyers.
- Unused FHSA contribution room at the end of the year can be carried forward, up to a maximum of $8,000, to use in the following year. Any FHSA carry forward will be included in the calculation of the individual's FHSA contribution room for the year.
- If a third party, such as parents or an employer, gift the money for a contribution to the FHSA, only the account holder can deduct the contribution.
- Maximum annual contributions can be transferred on a tax-deferred basis from an individual's RRSP or from a spousal RRSP, using CRA form RC720 "Transfer from an RRSP to a FHSA". No tax deduction is available on a direct transfer.
- A penalty tax of 1% per month applies on overcontributions to the FHSA for each month or part-month the account exceeds the limit.
- There is no minimum number of days that contributions or transfers to an FHSA must stay in the FHSA before a withdrawal is made to purchase a home.

Withdrawals

Qualifying withdrawals from an FHSA to buy a home are not taxable, as long the individual is a first-time home buyer and the funds are used to purchase a qualifying home in Canada by no later than October 1 of the year following the year of the withdrawal.

- For the purposes of a qualifying withdrawal, the same definition applies for a first-time home buyer on account opening, with an exception to allow individuals to make qualifying withdrawals within 30 days of moving into a qualifying home.
- The withdrawal from the FHSA does not have to be repaid, and FHSA contribution room does not get restored.
- Individuals will not be permitted to open an FHSA after the maximum participation period has ended.
- Transfers are also allowed between FHSA accounts, but only as a direct transfer.

How the FHSA and HBP can work together

The HBP is another program offered to individuals to help save for a down payment on a home. While similar to the FHSA, there are some key differences between the two programs.

- The HBP allows for a lump sum withdrawal of up to $35,000 from an individual's RRSP or spousal RRSP where the individual is the annuitant. The FHSA allows for a complete tax-free withdrawal of the balance in the account, including accumulated income.
- Unlike the FHSA however, the HBP requires the funds to be repaid to the RRSP or spousal RRSP where the annuitant is the same as withdrawing individual within a 15-year period. Any portion not repaid must be included in taxable income for the year the amount should have been repaid.
- The FHSA and HBP can be used together for the down payment on a home. This means an individual can access up to $75,000, plus any accumulated income in the FHSA. These amounts can be doubled when used by spouses or common-law partners.

Spousal Treatment:

Spousal plans are not available. However, individuals may gift funds to their spouse who then contributes to the FHSA. While attribution typically applies on gifts to spouses, there is an exception for FHSAs which will not attribute any income or capital gains back to the giftor spouse. Also, upon withdrawal, only the account holder is required to report the income and pay tax (if applicable). No portion of any withdrawal is subject to attribution.

Death of an FHSA holder

Contributions or transfers made to the deceased holder's FHSAs before the death of the holder would be tax deductible under normal rules. However, no contributions or transfers can be made to the deceased holder's FHSAs after their date of death.

In the event of account holder's death, the taxation of funds in the FHSA will vary depending on the type of beneficiary designated. The types of beneficiary designations can include the following:

- The account holder designates a spouse or common-law partner as the successor holder – in this case the spouse or common-law partner will become the new holder of the FHSA if they are a qualifying individual (i.e. at least 18 years of age, Canadian resident, and a first-time home buyer). They would also have the option of transferring the full FHSA balance to their RRSP or RRIF, or receive the amount as a taxable distribution, by the end of the exempt period (i.e. December 31st of the year following the year of account holder's death).
  - If the successor holder is not a qualifying individual, then they cannot become the new holder of the FHSA. They will be required to withdraw the FHSA balance as a taxable distribution or transfer the funds to their RRSP or RRIF directly without any immediate tax consequences, by the end of the exempt period.
- The account holder designates a spouse or common-law partner as a beneficiary – in this case the spouse or common-law partner cannot become the new holder of FHSA. The portion of FHSA that they are entitled to can be received as a taxable distribution or transferred directly to their FHSA, RRSP or RRIF without any immediate tax consequences, by the end of the exempt period.
- The account holder did not designate beneficiaries – in this case the amounts from the FHSA will be distributed to the estate and treated as taxable income. If the spouse or common-law partner is a beneficiary of the deceased holder's estate, a joint election may be made with the estate's legal representative to choose from one of the following options:
  - Amount transferred from the deceased's estate to the spouse or common-law partner's FHSA, RRSP, or RRIF can be deemed to be made from deceased's FHSA so that the transfer will be tax-deferred with no immediate tax consequences.
  - Payment made to the spouse or common-law partner from the deceased holder's estate can be deemed to be made from the deceased's FHSA so that the payment will be taxable to the spouse or common-law partner and not the estate.
- The account holder designates someone other than a spouse or common-law partner as the beneficiary – in this case the amounts received from the FHSA would be taxable to the beneficiary. No tax-deferred transfers are available in this situation.

Non-residents and the FHSA

Non-residents of Canada are not eligible to open an FHSA account but may still be able to make contributions to an existing account. However, withdrawals can only be made by a Canadian resident to purchase a qualifying home located within Canada. If withdrawals are made by a non-resident, the withdrawal will be subject to withholding tax.

Closing the FHSA

Closing an FHSA account is allowed at any time, but there may be tax implications in doing so.

If the account is not closed before the maximum participation period ends, the account holder will be subject to taxes on the withdrawal. As mentioned previously however, the balance in your FHSA can be transferred to your RRSP or RRIF on a tax-deferral basis without requiring RRSP contribution room.

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The FHSA will be available through Mackenzie in 2023 and is a great opportunity to save for a first home on a tax-free basis. To find out more, please contact your financial advisor or Mackenzie's Sales Team.