aviso wealth

FHSA – First home savings account

A new way to build a down payment for a new home

Housing cost is one of the largest budgeting outlays for the average family. For those looking to make the move from being renters to owners, it can be challenging to both cover current shelter needs and save toward a down payment on a first home.

A new tax-supported program was proposed in the 2022 Federal Budget, and came into effect on April 1, 2023. The Tax-free **First Home Savings Account (FHSA)** promises:

- Tax-deductible contributions,
- Tax-free investment growth, and
- Tax-free withdrawals for a first home purchase.

Eligibility

The FHSA is open to Canadian residents 18 to 71. To participate, an individual cannot be living in a home owned by that person in the year the account is opened, or in any of the four preceding calendar years. This includes a home owned by a spouse or common law partner, similar to the RRSP home buyer's plan, discussed below.

No tax will apply on FHSA withdrawals used for the purchase of a new home, but only one property will qualify for this special treatment over an individual's lifetime. All FHSA accounts must be closed by the end of the year following the year of a first qualifying withdrawal, after which the individual may not open another FHSA.

Contribution treatment and dollar limits

Tax treatment

Like a registered retirement savings plan (RRSP), FHSA contributions are tax-deductible. Alternatively, an individual may choose to transfer existing RRSP funds to a FHSA on a tax-free basis, though such a transfer will not restore RRSP contribution room.

Dollar limits

The lifetime contribution limit is $40,000, subject to a base annual FHSA participation room of $8,000. Both new contributions and existing RRSP transfers count toward both the annual limit and lifetime limit.

A limited carryforward rule allows unused room to be added to a later year's FHSA participation room. In the year that a person opens their first FHSA, their FHSA participation room that year is $8,000. In following years, the FHSA carryforward is $8,000 less all contributions and transfers made to all FHSAs in the prior year. That means that up to $16,000 could be contributed in a given year (other than the year the first FHSA is opened), though that would be the result of having made no contributions in the immediately preceding year.

An individual is allowed to open as many FHSAs as desired, but the annual and lifetime limits apply to transfers and contributions across all accounts. For someone who begins contributing the maximum annual amount as soon as allowed in 2023, the lifetime limit could be reached by 2027.

Timing of deductions

Despite the many similarities to RRSPs, one important distinction is the timing when deductions may be claimed. Whereas RRSP contributions in the first 60 days of a year may be deducted against the previous year's income, FHSA contributions are only deductible against income in the calendar year when they are made. As well, once there has been a qualifying withdrawal for the purpose of a new home purchase, no deduction is allowed for any FHSA contributions thereafter.

Tax-sheltering investment income

Like many other registered accounts, including RRSPs and tax-free saving accounts (TFSAs), investment income and growth while within a FHSA are not taxable.

Withdrawals

Withdrawals to assist in the purchase of a first home are non-taxable, with both spouses allowed to use their own FHSAs toward the same qualifying home.

All FHSAs must be closed by December 31 of the earliest of:

- the year following the first qualifying withdrawal for a first home purchase,
- the 15th anniversary of the first FHSA opening, and
- the year the individual turns age 71.

Amounts remaining in any FHSAs at the end of the defined period will be treated as income for that year.

Tax will apply on FHSA withdrawals taken for any purpose other than a home purchase. However, this can be deferred by transferring into a RRSP, or to a registered retirement income fund (RRIF). Such transfers will not replenish FHSA room, but also will not require or reduce an individual's RRSP room. Eventual withdrawals from the RRSP or RRIF will be taxable in the normal course.

Coordination with the RRSP home buyers' plan

The RRSP home buyers' plan (HBP) allows individuals to take up to $35,000 from a RRSP without tax applying in the year of withdrawal. Beginning in the second year following the first HBP withdrawal, withdrawn amounts must be returned to a RRSP over the course of up to 15 years. Repayments are not deductible, while any unrepaid amount is taxable in the year it is due.

In the original FHSA draft bill released in August 2022, an individual would not have been permitted to use both HBP withdrawals and FHSA withdrawals for the purchase of the same qualifying home. This restriction was removed in November 2022.

Treatment at death

A detailed discussion of FHSAs at death is beyond the scope of this summary article, as there are many variables that can come into play. In general, any remaining account value will be treated as income of the estate, unless directed otherwise in the FHSA contract or in the deceased's Will:

- If a spouse or common law partner is named as either successor holder or beneficiary, options may include receiving the amount as a taxable distribution, or transferring tax-deferred to the survivor's own FHSA (if qualifying criteria are met), RRSP or RRIF.
- A designation to a charity may qualify for a donation receipt. [Official guidance on these rules is pending.]
- For any other named beneficiary, any amount received will be treated as income in the year received.

For more information, please consult your financial advisor and tax professional.