To the Point.

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December 2023 Edition

FHSA demystified

The First Home Savings Account (FHSA) was first introduced in the 2022 federal budget. Since then, investment firms have adjusted to be able to offer this new investment account to their clients. Below we summarize the main points of this new savings vehicle.

Why does it exist?

To help first-time home buyers save for a down payment.

Who is it for?

For adults, Canadian residents, who are between the ages of 18 and 71 and who have not owned a home in the last four calendar years.

What is it?

Like the TFSA, the money invested in this account and the returns it generates will never be taxed if they are withdrawn to purchase a qualifying home.

Unlike a TFSA and like an RRSP, the amounts invested in the FHSA are tax-deductible.

Thus, the FHSA allows you to acquire a qualifying residence by paying for a portion of it with gross money (before taxes).

How does it work?

- You can contribute a maximum of $8,000 per year, subject to a lifetime limit of $40,000.
- $8,000 of unused contribution room can be carried forward into the future.
- To be eligible, a home must be located in Canada.
- The lifespan of the FHSA is limite. The closure of your FHSA account must take place no later than December 31 of the year of the first of these occurrences:
  - The account will have celebrated its 15th anniversary;
  - You will have reached 71 years of age;
  - You will have made a qualifying withdrawal.

What are the differences and similarities with RRSPs and TFSAs?

	FHSA	RRSP	TFSA
Contributions	Deductible	Deductible	Non-deductible
Withdrawals	Tax-free*	Taxable	Tax-free
Age limits	18 years to 71 years	18 years to 71 years**	> 18 years old
Deadline***	December 31 of each year	February 28 of the following year	N/A
Deferral of contributions	Yes****	Yes	Yes
Reinvestment of Permitted Withdrawals	No	No	Yes
Excess Contributions	1% penalty/month	1% penalty/month	1% penalty/month
Maximum	15 years	N/A	N/A

*if used for the purchase of a qualifying home **after age 71, the RRSP becomes a RRIF ***so that the contribution is deductible during the year ****maximum of $8,000

Better than the Home Buyers' Plan (HBP)

The HBP allows you to "borrow" from your RRSP to buy your first home. You do not pay tax when withdrawing. However, you must repay your RRSP in subsequent years. Deposits made to your RRSP as part of the HBP repayment are not deductible.

Since the withdrawal from the FHSA is tax-free, we prefer this program to the HBP. The two programs can be combined.

What investments should I have in my FHSA?

Eligible investments are the same as RRSPs and TFSAs (CRA Folio S3-F10-C1), including: publicly traded stocks, fixed income, mutual funds, etc.

While the same investment tools are available, the FHSA's investment horizon will likely be different from that of your TFSA or RRSP, which means that its content will likely need to be different as well. Your advisors at Allard, Allard & Associates will be happy to recommend what is optimal for you.

What happens if I don't buy a qualifying home?

Unused amounts from the FHSA can be transferred to an RRSP before it closes or withdrawn. If the withdrawal option is chosen, the amounts withdrawn will be added to your taxable income in the year of withdrawal.

Our assessment of the FHSA

In our opinion, the FHSA is an amazing tool for anyone who has not owned a home in the last 4 calendar years and has employment income, regardless of whether they intend to buy a home or not.

Want to know more? Contact us!

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