

# TAX TALK

## TAX-FREE FIRST HOME SAVINGS ACCOUNT (FHSA)

The draft legislation for a new registered plan for prospective first-time homebuyers was introduced on August 9, 2022. The plan will be known as the Tax-Free First Home Saving Account (FHSA) and it will provide first time home buyer an ability to save up to \$40,000 on a tax-free basis towards the purchase of a first home in Canada.

Like a registered retirement savings plan (RRSP), contributions to an FHSA will be tax deductible, however, any withdrawals to purchase a first home, including the investment income or growth earned in the account, would be non-taxable, like a tax-free savings account (TFSA).

The maximum annual tax-deductible contribution limit is \$8,000 and the maximum lifetime contribution is \$40,000. The plan must be closed after 15 years and funds used on a tax-free basis to buy a first home or transferred tax-free into RRSP or RRIF account.

### Eligibility

To open a FHSA account, an individual must meet the following three conditions;

- be a Canadian resident;
- be at least 18 years old; and
- be a first time home buyer.

To be a first time home buyer means the individual or their spouse does not own a principal residence in which they lived at any time in the year or the four preceding years prior to opening the FHSA.

To withdraw funds from an FHSA on a non-taxable basis, certain conditions must be met.

- you must be a first time homebuyer at the time of withdrawal,
- you must have a written agreement to buy or build a qualifying home before Oct. 1 of the year following the year of withdrawal, and
- you must intend to occupy that home as your principal place and the home must be located in Canada.

### Advantages

- The FHSA has features similar to RRSPs and TFSAs.
- An annual maximum contribution of \$8,000 to the FHSA which allows a tax deduction similar to RRSP contributions
- Similar to RRSP contributions, FHSA contributions won't be required to be claimed in the tax year in which a contribution was made. Instead, this amount can be carried forward indefinitely and deducted in a later tax year with higher income. Any contributions carried forward must be deducted before the FHSA is closed.
- More than one FHSA can be opened, but the total contributions to all the FHSAs can't exceed your annual and lifetime contribution limits.
- Similar to TFSA, withdrawals including any income earned or growth in the FHSA, can be withdrawn tax free if the funds are to be used towards the purchase of qualifying home by a First time home buyer.
- The funds can be transferred from one FHSA to another FHSA or to an RRSP or a RRIF on a tax-free basis.
- If the funds are transferred to an RRSP or RRIF they will be taxed upon ultimate withdrawal. However, these transfers will not affect RRSP contribution room nor will the transfer reinstate an individual's \$40,000 FHSA lifetime contribution limit.
- Each spouse can open their own FHSA as long as both meet the eligibility requirements.
- Both the FHSA and Home Buyers' Plan (HBP) can be used in respect of the same qualifying home.

### Disadvantages

- There is no spousal contribution rule to allow someone to make a contribution to a spouses FHSA and claim a deduction on their return, however, one spouse can loan the other spouse the funds to make their own FHSA contribution without the spousal attribution rules applying.

Once an individual has made a non-taxable withdrawal to purchase a home, they are required to close all their FHSAs within a year after the first withdrawal and will not be eligible to open another FHSA.

### **Current Status of Legislation**

Legislation for the new FHSA has been introduced but these new tax measures are not law yet. Finance expects that Canadians will be able to open and start contributing to an FHSA at some point in 2023.

### **We Can Help**

Your MG advisor can help you review your trust tax situation and help you decide if this savings plan is appropriate for you.

A memorandum of this nature cannot be all-encompassing and is not intended to replace professional advice. Its purpose is to highlight tax planning possibilities and identify areas of possible concern. Anyone wishing to discuss the contents or to make any comments or suggestions about this TaxTalk is invited to contact one of our offices.

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