

TAX TALK

RRSP HOME BUYER'S PLAN AND RRSP LIFELONG LEARNING PLAN

RRSP Home Buyers' Plan ("HBP")

If you are a Canadian resident "first-time" home buyer¹, consider using the HBP in order to help with the down payment on a new home. The HBP allows you and, if applicable, your spouse to withdraw up to \$35,000 each from your existing RRSPs tax-free, to purchase a home.

Certain rules and restrictions apply. First, before making an HBP withdrawal, the funds must have been in your RRSP for at least 90 days before the withdrawal. Second, the home must be purchased by October 1st of the year following the year of the withdrawal. Third, you must repay the withdrawn funds over time, or you will pay tax on the withdrawals not repaid.

A prescribed form needs to be filled out and provided to the RRSP provider. You may withdraw the amount as a single payment or a series of withdrawals in the same calendar year.

The amount you withdraw under an HBP is treated like an interest-free loan from your RRSP and must be repaid annually over a maximum period of 15 years, beginning in the second year after the withdrawal², therefore allowing the loan to exist for up to 17 years.

If you plan to withdraw funds from your RRSP under an HBP in late 2020, you should consider delaying the withdrawal until early in 2021. This strategy will extend the deadline for purchasing a home from October 1, 2021 to October 1, 2022, and delay the start of the required repayments by one year from 2022 to 2023.

A HBP repayment is made by making a regular RRSP contribution in the year the repayment is due or in the first 60 days of the following year and is designating a portion of the payment as a HBP repayment rather than a regular RRSP contribution. As a result, the HBP repayment does not reduce your taxable income. If this designation is not made, then no repayment would be recognized and the required repayment amount would be included in your income and be subject to tax. The Canada Revenue Agency ("CRA") will advise you on your prior year's notice of assessment what the minimum HBP amount you must repay each year. You can also confirm this repayment amount by logging into your CRA "My Account".

There are certain rules and restrictions that apply in the event that there is a breakdown of a marriage or common-law partnership. Generally, the rules allow participating in the HBP if the two partners have lived separate and apart for a period of at least 90 days.

When you withdraw funds from your RRSP to purchase a home under an HBP, you will access an interest free loan that will increase your down payment and reduce your mortgage payments. Having a larger down payment will also mean lower interest expense and possibly avoiding paying the CMHC insurance fee. However, withdrawing the funds will reduce your tax-deferred growth in the RRSP.

Whether an HBP makes sense for you will depend, in part, on the savings that result from having a higher down payment and a lower mortgage vs the lost investment income from the tax-deferred savings.

In addition to the HBP, a First-Time Home Buyer's tax credit of 15% of \$5,000 (or \$750 for 2020) is available for first-time home buyers.

¹ A first-time home buyer includes any individual if neither that individual nor his or her spouse owned a home as a principal residence within four calendar years preceding the new HBP withdrawals. An individual may participate in the HBP more than once, provided that all HBP withdrawals have been repaid. Also, the "first-time buyer" prerequisite does not apply to individuals who qualify for the disability tax credit, and to individuals who support disabled individuals and who purchase a home that is better suited to the needs and care of the disabled individual.

² Repayment of the HBP and LLP withdrawals will accelerate when the taxpayer dies (unless the deceased's spouse elects otherwise), or when they cease to be a resident of Canada.

RRSP Lifelong Learning Plan (LLP)

Under an LLP, you can withdraw funds from your RRSP tax-free if the funds are used to finance full-time post-secondary education for you or your spouse (or part-time education if the student has a mental or physical impairment). Certain other rules and restrictions may apply. First, annual withdrawals are limited to \$10,000, with a four-year maximum limit of \$20,000. Secondly, the funds must have been in the RRSP for at least 90 days before the withdrawal. Thirdly, you must repay the withdrawn funds over time, or you will pay tax on the withdrawal.

Like an HBP, the amount you withdraw under an LLP is treated like an interest-free loan from the RRSP and must be repaid in equal instalments over ten years, with the first repayment due no later than 60 days following the fifth year after the first withdrawal. Any unpaid amounts will be included in income in the year that the repayment is missed (similar to the HBP). Future withdrawals can be made from your RRSP for education, provided all your previous withdrawals have been fully repaid.

WE CAN HELP

Your MG advisor can help you review your personal or business tax situation and assist you in deciding your next planning steps to take.

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.

Offices: First Canadian Place
100 King Street West, Suite 5700
Toronto, Ontario M5X 1C7
Phone: 416-362-0515

1900 Minnesota Court, Suite 116
Mississauga, Ontario L5N 3C9
Phone: 905-451-4788
Fax: 905-451-3299

TaxTalk is prepared by our Tax Group (taxtalk@mgca.com). Please visit our web site at www.mgca.com.

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