




# **INTRODUCING THE FIRST HOME SAVINGS ACCOUNT (FHSA)**

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This year Canadians will have a new way to help save tax-free for their first home by opening a First Home Savings Account.

## **WHAT IS IT?**

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An FHSA is a registered account allowing you to save up to \$40,000 towards purchasing a house tax-free. You can contribute up to \$8,000 annually and carry forward unused contributions into future years. You can hold investments in your FHSA, similar to those in an RRSP or a TFSA.

## **WHO IS ELIGIBLE**

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Canadians between 18 and 75 who have never been a homeowners are eligible to open an account. It can be beneficial to open an account early to take advantage of the carry-forward amounts into future earning years, even if you can't make any contributions.

Married couples may each have an FHSA, allowing them to contribute \$80,000 towards their first home potentially. However, you will not be eligible if your spouse already owns or owned a home. If you are no longer married to your spouse and were never a registered homeowner, you can open an FHSA.

Confused? Check with your financial advisor to be sure. Banks are not required to establish eligibility when these accounts are opened; the onus is on you.



## WHAT ABOUT THE HOME BUYERS'S PLAN

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A great feature of the FHSA is that you can combine this \$40,000 with the up to \$35,000 that the HBP allows you to withdraw from your RRSPs. Each person contributing to the first home purchase could have up to \$75,000.

## HOW DO CONTRIBUTIONS WORK?

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As we said earlier, you can contribute up to \$8,000 annually, tax-free, to your FHSA. It is possible to hold more than one FHSA, but the total amount contributed to all accounts can only be \$40,000 tax-free.

Contributions are tax-deductible, like an RRSP, but even better, withdrawals are tax-free, like a TFSA!

Contributions must be made in the calendar year ending December 31. You cannot contribute to last year's FHSA in the first 60 days of a new year, unlike with an RRSP.

Over contributions are taxed at 1% per month until the contribution amount "resets." For example, if you contribute \$10,000 on November 1, 2023, \$8,000 will be tax-free, but the extra \$2,000 will be taxed in November and December. As of January 1, 2024, when your contribution amount resets for the year, \$2,000 will be considered part of your 2024 contribution limit.

It is possible to contribute to a spousal FHSA, but the contributing spouse will not be able to claim these contributions as tax-deductible.



## **HOW DO I WITHDRAW MONEY**

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You can withdraw the money tax-free if you have a written agreement that the home will be bought or built by October of the year of withdrawal. Obviously, this can be affected by delays in new home construction, but the intent must be demonstrated. The house must be in Canada, and you intend to make it your principal residence within one year of the purchase.

## **WHEN DOES THE ACCOUNT "EXPIRE"?**

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FHSA accounts must be closed 15 years after being opened, OR on December 31 of the year, the owner turns 75. At that time, if you still haven't bought a home, the money can be transferred, tax-free into an RRSP or RRIF. The money can also be withdrawn, but withdrawals would be fully taxable.

## **WHAT HAPPENS TO THE ACCOUNT IF I PASS AWAY**

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Your account can be transferred to your surviving spouse if they are eligible to have an FHSA. If they already have one, your FHSA contributions to date will not impact their contribution limits. If your spouse is not eligible to hold an FHSA, your account can be transferred to your spouse's RRSP or RRIF tax-free. If your spouse chooses to withdraw the funds, they will be fully taxable.



Only your spouse can take advantage of this tax-free transfer. Any other beneficiary would need to withdraw the funds, which would be included in their taxable income.

An FHSA can be an excellent tool for Canadians pursuing home ownership. Any chance to accumulate tax-free savings and take advantage of compound interest in these accounts can get you closer and closer to your dream house! Your financial advisor can help you maximize this opportunity by setting up an FHSA to meet your particular investment needs.

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