FIRST HOME SAVINGS ACCOUNT (FHSA)

Effective on April 1, 2023, the FHSA is a new registered savings plan that will allow first-time home buyers to save up to $40,000 on a tax-free basis to be used towards the purchase of a new home. Similar to a Registered Retirement Savings Plan (RRSP), contributions would be tax-deductible, and withdrawals to purchase a first home would be non-taxable. The distinction though is that the amount withdrawn from an RRSP would be repaid over time.

Eligibility

To open an FHSA, an individual must be a resident of Canada and at least 18 years of age. In addition, an individual must be a first-time home buyer, meaning that they, or their spouse or common-law partner ("spouse") did not own a qualifying home that was lived in as a principal place of residence at any time in the year the account is opened or the preceding four calendar years.

Contributions

The annual contribution limit will be $8,000, up to a lifetime contribution limit of $40,000. The contribution limit is not affected by income. An individual would be allowed to carry forward unused portions of their annual contribution limit.

The annual contribution limit will apply to contributions made within a particular calendar year. Individuals will be able to claim an income tax deduction for contributions made in a particular taxation year. Unlike RRSPs, contributions made within the first 60 days of a given calendar year cannot be attributed to the previous tax year.

Withdrawals

The withdrawals made towards a qualifying home purchase are tax-free.

Qualified Investments

An FHSA is permitted to hold the same qualified investments that are currently allowed to be held in a TFSA. In particular, taxpayers can hold a broad range of investments, including mutual funds, publicly traded securities, government and corporate bonds, and guaranteed investment certificates.

Other limitations

An FHSA of an individual will cease to be an FHSA, and the individual will not be permitted to open an FHSA, after December 31 the year in which the earliest of these events occurs:

- The fifteenth anniversary of the individual first opening an FHSA; or
- The individual turns 71 years old.

Any savings not used to purchase a qualifying home can be transferred on a tax-free basis into an RRSP or Registered Retirement Income Fund (RRIF) or would otherwise have to be withdrawn on a taxable basis.

Interaction with the Home Buyers' Plan (HBP)

The HBP continues to be available under existing rules, where taxpayers can borrow up to $35,000 from their RRSP for a qualified home purchase. As such, Canadians can make both an FHSA withdrawal and HBP withdrawal for the same qualifying home purchase. This could provide a total of $75,000 between the two programs.

Key differences:

- The HBP operates through your existing RRSP account while the FHSA is a separate account;
- While qualifying withdrawals from both plans are tax-free, the HBP must be repaid over a period of time otherwise those withdrawals become taxable;
- You cannot deduct a contribution to a spousal FHSA, unlike RRSP contributions;
- The $35,000 available for the HBP is available immediately, to the extent that funds are available in your RRSP account. At $8,000 per year starting in 2023, it will take until 2027 for taxpayers to reach the $40,000 limit for the FHSA.