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INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

## Saving for the purchase of your home

Comparing the FHSA, TFSA and RRSP

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As the cost of owning a home continues to rise, many are finding it more and more difficult to save up enough funds to purchase a home. To address this issue, the government recently introduced a tax-free first home savings account (FHSA). The FHSA is a registered account that's meant to help more Canadians enter the housing market.

With the availability of the FHSA and the existing tax-free savings account (TFSA), as well as the ability to participate in the home buyers' plan (HBP), which allows you to withdraw from your registered retirement savings plan (RRSP) to buy or build a home, you might be wondering which option is best to help you save funds for the purchase of your home. This article summarizes the key features of each savings vehicle and provides a discussion on which option, or combinations of options, may be most suitable for you, based on your circumstances.

Any reference to a spouse in this article also includes a common-law partner.

	FHSA	TFSA	RRSP (HBP)
<b>Purpose</b>	First-time home purchase savings	General savings	Retirement savings
<b>Eligibility to open the account</b>	<p>You must be a Canadian resident, at least 18 years of age (and not turning age 72 or older) in the year, and have a valid social insurance number (SIN) to open an FHSA.</p> <p>You must also be a first-time home buyer, which generally means you and your spouse must not have owned a home that you lived in as your principal residence at any time during the part of the calendar year before you opened the account or at any time in the preceding four calendar years.</p>	You must be a Canadian resident, have reached the age of majority in your province or territory of residence and have a valid SIN to open a TFSA.	You must be a Canadian resident and have a valid SIN to open an RRSP.
<b>Contribution limit and carry-forward ability</b>	<p>You start accumulating contribution room after you open an FHSA for the first time.</p> <p>You have an annual contribution limit of \$8,000 and a lifetime contribution limit of \$40,000.</p> <p>You will be allowed to carry forward your unused annual contribution limit up to a maximum of \$8,000.</p>	<p>You automatically accumulate contribution room each year (starting in 2009) if you were a resident of Canada at any time during the year and you were at least 18 years of age.</p> <p>The total contribution limit from 2009 to 2023 is \$88,000. The annual contribution limit for 2023 is \$6,500.</p> <p>If you contribute less than your annual contribution limit, you can carry forward any unused contribution room indefinitely.</p>	<p>Generally, your maximum annual RRSP contribution limit is equal to the lesser of:</p> <ul style="list-style-type: none"> <li>• 18% of your earned income (e.g., salary or wages from employment) for the previous tax year; or</li> <li>• The prescribed annual limit for the year (\$30,780 for 2023).</li> </ul> <p>Your participation in a registered pension plan or a deferred profit sharing plan in the previous tax year could reduce this limit. If you do not contribute your maximum available contribution limit, you can carry forward the unused portion indefinitely.</p>
<b>Contribution tax treatment</b>	Contributions are tax-deductible.	Contributions are not tax-deductible.	Contributions are tax-deductible.
<b>Investment income tax treatment</b>	Income and capital gains (and capital losses) earned are not included in your annual income for tax purposes.	Income and capital gains (and capital losses) earned are not included in your annual income for tax purposes.	Income and capital gains (and capital losses) earned are not included in your annual income for tax purposes.

	FHSA	TFSA	RRSP (HBP)
<b>Certain withdrawal conditions</b>	<p>To make a qualifying withdrawal, you must be a first-time home buyer at the time of withdrawal.</p> <p>You must also have a written agreement to buy or build a qualifying home before October 1 of the year following the year of withdrawal and intend to occupy the home as your principal residence within one year after buying or building it.</p>	<p>You can generally withdraw any amount, at any time, depending on the type of investments you hold within the TFSA.</p>	<p>To make a withdrawal under the HBP, you must be a first-time home buyer.</p> <p>You must also have a written agreement to buy or build a qualifying home before October 1 of the year following the year of withdrawal and intend to occupy the home as your principal residence within one year after buying or building it.</p>
<b>Withdrawal tax treatment</b>	<p>Qualifying withdrawals are tax-free. Non-qualifying withdrawals are taxable.</p> <p>Non-qualifying withdrawals are taxable. Tax is withheld at source on non-qualifying withdrawals, based on the amount withdrawn.</p>	<p>Any withdrawal is tax-free.</p>	<p>You can withdraw up to \$35,000 from your RRSP under the HBP without triggering immediate tax consequences.</p> <p>If you want to withdraw more than \$35,000, the excess would be considered a regular taxable withdrawal, subject to withholding tax.</p>
<b>Withdrawal repayment</b>	<p>You are not required to repay your withdrawal.</p>	<p>You are not required to repay your withdrawal.</p>	<p>You must generally repay any withdrawn amounts to your RRSP under the HBP within 15 years, starting the second calendar year following the year in which you made the withdrawal.</p> <p>HBP repayments are not tax-deductible, nor do they affect your RRSP deduction limit.</p>
<b>Withdrawal effects on contribution room</b>	<p>Withdrawals (qualifying or non-qualifying) do not re-instate your contribution room.</p>	<p>Withdrawals re-instate your contribution room. The amount withdrawn is added back to your contribution room as of January 1 of the year following the withdrawal.</p>	<p>Withdrawals do not re-instate your contribution room.</p>

	FHSA	TFSA	RRSP (HBP)
<b>Account closing timeline</b>	<p>You will need to close the account by the earlier of:</p> <ul style="list-style-type: none"> <li>December 31 of the year you turn age 71; or</li> <li>December 31 of the 15th anniversary of first opening the account, if you have not used the funds to purchase a qualifying home.</li> </ul>	<p>Your TFSA can remain open during life.</p>	<p>Your RRSP must mature by the end of the year you turn age 71, after which you have the following three options:</p> <ol style="list-style-type: none"> <li>You can directly transfer your RRSP assets to a registered retirement income fund (RRIF).</li> <li>You can use the funds in your RRSP to purchase an eligible annuity.</li> <li>You can withdraw your RRSP funds (less withholding tax) in cash or in-kind.</li> </ol> <p>You cannot participate in the HBP using funds from a RRIF.</p>
<b>Transfers to other registered accounts</b>	<p>You can transfer funds from an FHSA to another FHSA, an RRSP or a RRIF on a tax-free basis.</p> <p>If you transfer funds from an FHSA to an RRSP or a RRIF, the transfer will not reduce, or be limited by, your available RRSP contribution room, nor would the transfer reinstate your FHSA annual or lifetime contribution limit.</p> <p>Once transferred, the funds will be subject to the rules applicable to RRSPs and RRIFs, including that the funds will be taxable when you withdraw them from the account.</p>	<p>Subject to your FHSA contribution room, you can withdraw funds from your TFSA and contribute them to your FHSA. You will receive a tax deduction for the contribution.</p> <p>Once contributed to your FHSA, the funds will be subject to the rules applicable to FHSAs, including that the funds will be taxable if you make a non-qualifying withdrawal.</p> <p>Subject to your RRSP contribution limit, you can move funds from your TFSA to your RRSP. This would involve a withdrawal from your TFSA (which would be tax-free) and a contribution to your RRSP (which would be tax-deductible).</p> <p>Once you've made the RRSP contribution, the funds will be subject to the rules applicable to RRSPs and RRIFs, including that the funds will be taxable when you withdraw them from the account.</p>	<p>You can transfer funds from your RRSP to your FHSA on a tax-free basis, subject to the FHSA annual and lifetime contribution limits.</p> <p>This transfer would not be deductible (since your original RRSP contribution was previously deductible) and would also not reinstate your RRSP contribution room.</p> <p>You cannot directly transfer an investment from your RRSP to your TFSA. You can, however, make a taxable withdrawal from your RRSP (withholding tax may apply on the withdrawal), and make a contribution to your TFSA, assuming you have sufficient TFSA room.</p>

	FHSA	TFSA	RRSP (HBP)
<b>Purpose of withdrawn funds</b>	As long as you meet all of the conditions for a qualifying withdrawal, you can use the funds you withdraw for any purpose. The funds do not have to be used to purchase or build the qualifying home.	Funds withdrawn can be used for any purpose.	As long as you meet all of the conditions to participate in the HBP, you can use the funds you withdraw under the program for any purpose. The funds do not have to be used to purchase or build the qualifying home.
<b>Impact on income-tested benefits</b>	Since contributions lower your taxable income, they may have a positive impact on your eligibility for income-tested benefits (such as the Canada child benefit) or credits (such as the GST credit).  Qualifying withdrawals will not impact income-tested benefits or credits.	Contributions and withdrawals do not impact income-tested benefits.	Since contributions lower your taxable income, they may have a positive impact on your eligibility for income-tested benefits (such as the Canada child benefit) or credits (such as the GST credit).  Withdrawals will impact income-tested benefits such as Old Age Security (OAS).
<b>Tax deduction for interest on borrowing to invest</b>	No, interest on money borrowed to invest in an FHSA is not deductible for tax purposes.	No, interest on money borrowed to invest in a TFSA is not deductible for tax purposes.	No, interest on money borrowed to invest in RRSP is not deductible for tax purposes.

## Evaluating your options

Determining which account would best help you save towards purchasing a home depends on your own specific circumstances — there is no single or absolute answer. Instead, there are many considerations that may make a particular savings vehicle more suitable for you.

### The FHSA

If you plan on purchasing your first home in the near future, you may want to open an FHSA and start accumulating room. The FHSA has many advantages, as it combines the attractive features of both the RRSP and the TFSA. The earlier you're able to open the account, the longer you have to take advantage of the 15-year limit for tax-free growth. If you're not in a position to contribute the full \$8,000 of annual contribution room this year, your contribution room will carry forward and you can contribute up to your available room in a later year. Further, if you expect to be in a high marginal tax bracket for the next few years, the FHSA is particularly tax-efficient because it allows for a tax deduction on your contributions as well as tax-free growth and qualifying withdrawals.

Since undeducted FHSA contributions can be carried forward indefinitely, if you have relatively low income this year and expect to have higher income in the next few years (perhaps you're just starting out in your career), you can contribute to your FHSA this year and wait to claim

the tax deduction in a future year when you have higher income. With this approach, you gain access to tax-free growth immediately and you also get to benefit more from a tax deduction in a later year when you're paying tax at higher marginal income tax rates.

Although the same carryforward rules apply for undeducted RRSP contributions, it may make sense to first start contributing to your FHSA, as opposed to your RRSP. This is because if you don't end up buying a home within 15 years, you have the flexibility of transferring the funds accumulated in your FHSA to your RRSP, where you can later make a withdrawal under the HBP. This transfer will not reduce your available RRSP room; therefore, you can create more RRSP room by first contributing to your FHSA. On the other hand, if you start by contributing to an RRSP and then transfer the funds into your FHSA (which you're allowed to do), you don't get an additional deduction and you will have lost that RRSP room.

### The RRSP

If you're in a high marginal tax bracket, you may want to consider contributing to the RRSP, as it may allow for larger tax-deductible contributions (based on your RRSP contribution room) and therefore provide you with access to a larger amount that can be withdrawn (up to \$35,000) than from an FHSA in the early years of the FHSA program.

Keep in mind that by participating in the HBP through your RRSP, you're essentially borrowing money (interest-free) from your own RRSP, as you do have to repay the funds to your RRSP within 15 years and pay tax on those funds at your marginal tax rate eventually when you make a regular withdrawal.

### The TFSA

If you're not considered a first-time home buyer and therefore aren't eligible open an FHSA or participate in the HBP program, you can use a TFSA to help you save for a home. If you're considered a first-time home buyer, you can also use the TFSA to supplement an FHSA and/or HBP withdrawal. The TFSA is designed to help you meet a wide range of financial goals, as it offers tax-free growth and enhanced flexibility. You can contribute to a TFSA at any time, as long as you have contribution room. You can also withdraw from a TFSA at any time, for whatever purpose, and the amount of the withdrawal is added back to your contribution room for the following year. There are no income restrictions for contributing to a TFSA, meaning that regardless of your income level or type of income you earn, you can contribute to a TFSA. As such, the TFSA can be an attractive option if you're in a lower income tax bracket and looking to save for the purchase of your home.

### The interplay

If you have enough funds to be able to contribute to all three accounts, and assuming you meet the eligibility criteria to open and contribute to all of these accounts, you are able to use all of them in conjunction with each other. You can save in all three accounts and make an FHSA, an HBP, and a TFSA withdrawal to help you with the down-payment for the same qualifying home purchase.

Alternatively, if you don't currently have the cash flow but you have already saved funds in a TFSA and anticipate purchasing a home within the next few years, you may want to consider withdrawing funds from your TFSA and depositing them into your FHSA in order to receive a tax-deduction (either now or in a future year).

### Conclusion

If you're thinking of buying a home in the near future, it's important to be aware of the options available to help you save for this major purchase. The more you know about each option, the better-informed choice you'll be able to make in the right savings vehicle for you.

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