ARGOSY SECURITIES INC.

The Benefits of a (FHSA)

FIRST HOME SAVINGS ACCOUNT

Understanding the First Home Savings Account (FHSA)
The FHSA is a registered investment plan created to assist Canadians in purchasing their first home with a medium- to long-term investment horizon. Its tax benefits and flexibility make it a potent wealth-building tool, even if a qualified investor isn't planning to purchase a home right away.

ELIGIBILITY AND OPENING AN FHSA

To be eligible for the FHSA program, the applicant must be a Canadian resident aged between 18 to 71 years who has not owned a home or lived in a house owned by their spouse/common-law partner for the past four calendar years. It is important to note that opening an FHSA account does not require an obligation to purchase a home in the future.

POWERFUL TAX ADVANTAGES

Understanding the FHSA: Combining RRSP and TFSA Benefits for Tax Advantages

The FHSA is a registered account type that merges the tax benefits of both the Registered Retirement Savings Plan (RRSP) and Tax-Free Savings Account (TFSA). Contributions made to an FHSA can be deducted from a holder's taxable income, providing benefits in the year the contribution was made or for a future year. In contrast, qualified withdrawals are completely tax-free. This offers eligible high earners, whose approach already includes minimizing taxes through RRSP contributions, an additional deduction opportunity. It's important for investors to seek guidance from a tax professional regarding their financial and tax needs before making investment decisions.

TYPES OF INVESTMENTS

Understanding FHSA Eligibility and Investment Options

FHSA savings plans are comparable to RRSPs and TFSAs in terms of eligible investments. These include cash, mutual funds, ETFs, publicly traded stocks, bonds, GICs, options, and certain alternative investments. While real property cannot be held in an FHSA, eligible REITs offer a means to gain exposure to private real estate growth before purchasing a home. Additionally, they can be used as a tax-free hedge against increasing home prices. As per Equiton's perspective, investors may prefer low-volatility assets with steady growth to riskier equities due to the emotional aspect of saving for a home.

CONTRIBUTION RULES

Understanding the FHSA Contribution Room and Limits

The contribution room for the First Home Savings Account (FHSA) doesn't depend on income levels. Instead, investors may contribute up to $8,000 a year, with a lifetime maximum of $40,000. It's important to note that contribution room begins accumulating from the year an investor opens their account. This is why it's advantageous to open one as soon as possible. The deadline for contributions is December 31st, and any unused room can be carried over from one year to the next.

If an investor holds multiple FHSAs, the annual and lifetime contribution limits are pooled together. Over-contributions are taxed at a rate of 1% monthly until the excess is eliminated. Any amounts exceeding the $40,000 lifetime limit cannot be deducted on an income tax and benefit return for the year. Lastly, investors can transfer funds from an existing RRSP to an FHSA. However, such transfers will not be tax deductible and won't restore used contribution room.

QUALIFIED WITHDRAWALS AND CLOSING AN FHSA

Understanding the Participation Period for FHSA Accounts

First-time homebuyers can take advantage of a Tax-Free Savings Account (TFSA) or a Registered Retirement Savings Plan (RRSP) to help save for a down payment. One option is the First-time Home Buyer's Savings Account (FHSA), which has a maximum participation period of 15 years. During this time, the account holder must either purchase a qualifying home or transfer their investment.

To make a qualified withdrawal, the investor must acquire a qualifying home no more than 30 days before the withdrawal date. Alternatively, they can obtain a written agreement to purchase or build a qualifying home before October 1st of the year after their first withdrawal. It's worth noting that FHSA proceeds may be combined with a tax-free withdrawal from an investor's RRSP under the Homebuyers' Plan (HBP).

If the investor fails to purchase a home or holds unwithdrawn funds after buying a home, they can direct their investments towards retirement on a tax-free basis via an RRSP or RRIF before the participation period ends. However, if the FHSA account is not closed or transferred within the participation limit, the funds must be withdrawn on a taxable basis. It's important to remember that transfers to an RRSP inherit the tax rules of the new account type and do not impact unused RRSP contribution room. This allows investors who have fully funded their retirement plan to effectively exceed their maximum contribution limit by the amount of the transfer.

A WEALTH-BUILDING VEHICLE

Investors who wish to finance a home are facing various uncertainties, such as high interest rates, persistent home affordability problems, and stubborn inflation. Additionally, home savings must compete with retirement savings and daily living expenses. As a result, a growing number of Canadians have abandoned their dream of owning a home. In light of these obstacles, the FHSA presents an appealing prospect for generating long-term wealth.

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