



EQUITON®

VIEWPOINT

Benefits of a

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# FIRST HOME SAVINGS ACCOUNT (FHSA)

**The First Home Savings Account (FHSA)** is a new registered investment plan with a medium- to long-term investment horizon designed to help Canadians purchase a first home<sup>1</sup>. Owing to its tax advantages and relative flexibility, the FHSA must be recognized as a powerful wealth-building vehicle whether a qualified investor plans to purchase a home or not.

## ELIGIBILITY AND OPENING AN FHSA

To be eligible, an applicant must be a Canadian resident between 18 and 71 years of age who has neither owned a home nor principally resided in a home owned by their spouse/ common-law partner in the preceding four calendar years. Opening an FHSA does not constitute an obligation to eventually purchase a home.

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## POWERFUL TAX ADVANTAGES

The FHSA combines the tax benefits of the popular Registered Retirement Savings Plan (RRSP) and Tax-Free Savings Account (TFSA) registered account types. Contributions<sup>2</sup> to an FHSA may be deducted from a holder's taxable income and benefits in the year the contribution was made or a future year. Meanwhile, qualified withdrawals are completely tax-free. Eligible high earners whose strategy might already include minimizing taxes through RRSP contributions could find the added deduction availability advantageous<sup>3</sup>. Investors should consult with a tax professional about their financial and tax needs before making investment decisions.

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## TYPES OF INVESTMENTS

Investments eligible to be held in an RRSP or TFSA are similarly eligible for an FHSA. This includes cash, mutual funds, exchange-traded funds (ETFs), publicly traded stocks, bonds, guaranteed income certificates (GICs), options, and some alternative investments. Although real property cannot be held in an FHSA, eligible real-estate investment trusts (REITs) enable prospective homeowners to begin participating in private real-estate upside<sup>4</sup> prior to owning a home and/or to implement a tax-free hedge against rising home prices. It is Equiton's view that investors may favour lower-volatility assets with stable growth to comparably riskier equities due to the emotional dimension of amassing home savings.

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## CONTRIBUTION RULES

FHSA contribution room is not geared to income level. Instead, investors may contribute \$8,000 per year, up to a lifetime limit of \$40,000. Contribution room only starts accumulating the year an investor opens an account, a potential advantage of opening one as soon as possible<sup>5</sup>. The contribution deadline falls on December 31 annually and any unused FHSA participation room<sup>6</sup> can be carried over from one year to the next.

It is important to know that annual and lifetime contribution limits are pooled for investors holding multiple FHSAs. Should an investor over-contribute, the excess is taxed at a rate of 1% monthly until the excess is eliminated. Amounts exceeding the lifetime limit of \$40,000 cannot be deducted on an income tax and benefit return that year. Investors can transfer funds from an existing RRSP to an FHSA. Such transfers will not be tax deductible and won't restore used contribution room.

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## QUALIFIED WITHDRAWALS AND CLOSING AN FHSA

FHSAs have a maximum 15-year participation period during which the account holder must purchase a home or transfer their investment.

To make a qualified withdrawal or withdrawals, the investor must acquire a qualifying home no more than 30 days before the withdrawal date and/or obtain a written agreement to purchase or build a qualifying home before October 1 the year after their first withdrawal. FHSA proceeds may be combined with a tax-free withdrawal from an investor's RRSP under the Homebuyers' Plan (HBP). Ultimately, the FHSA must be closed by the end of the same calendar year.

If an investor does not purchase a home or holds unwithdrawn funds<sup>7</sup> following the purchase of a home, they may direct their investments toward retirement on a tax-free basis via an RRSP or RRIF before their participation period expires. Note that transfers to an RRSP inherit the tax rules of the new account type and do not impact unused RRSP contribution room. This enables investors who have fully funded their retirement plan to effectively exceed their maximum contribution limit by the amount of the transfer.

If the FHSA account is not closed or transferred within the participation limit, the funds must be withdrawn on a taxable basis.

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## A WEALTH-BUILDING VEHICLE

Investors seeking to finance a home face uncertainty including high interest rates, entrenched home affordability issues, and stubborn inflation. Home savings must also compete<sup>8</sup> with retirement savings and living expenses. A growing majority of Canadians have given up on owning a home<sup>9</sup>. Created with such challenges in mind, the FHSA represents an exciting opportunity to generate long-term wealth.



### Notes:

<sup>1</sup> <https://www.canada.ca/en/department-finance/news/2022/08/design-of-the-tax-free-first-home-savings-account.html>

<sup>2</sup> <https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/first-home-savings-account/contributing-your-fhsa.html>

<sup>3</sup> <https://www.moneysense.ca/save/investing/fhsa/your-fhsa-timeline-what-to-invest-in-and-when/>

<sup>4</sup> <https://equiton.com/blogs/benefits-of-using-your-tfsa-to-invest-in-real-estate/>

<sup>5</sup> <https://www.edwardjones.ca/ca-en/market-news-insights/guidance-perspectives/fhsa-year>

<sup>6</sup> [https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/first-home-savings-account/tax-deductions-fhsa-contributions.html#\\_h\\_3](https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/first-home-savings-account/tax-deductions-fhsa-contributions.html#_h_3)

<sup>7</sup> <https://www.canada.ca/en/department-finance/news/2022/08/design-of-the-tax-free-first-home-savings-account.html>

<sup>8</sup> <https://globalnews.ca/news/10142801/canada-cost-of-living-generational-issues/>

<sup>9</sup> <https://globalnews.ca/news/10007858/canada-home-ownership-giving-up/>



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