

January 2023

The First Home Savings Account (FHSA) is a new registered savings plan that aims to help Canadians save for their first home. The FHSA offers prospective first-time home buyers the ability to contribute up to \$40,000 tax-free. Contributions to an FHSA are tax-deductible like an RRSP, and like a TFSA, income and gains inside an FHSA as well as withdrawals towards the purchase of a first home are tax-free.

Under the legislation, the earliest date an FHSA can be offered is April 1, 2023. FHSA accounts will be available through Fidelity shortly thereafter.

The information provided below reflects the current proposed plan and will be updated if changes are made.

FHSA eligibility

To be eligible to open an FHSA, you must be an individual resident of Canada, at least 18 years of age, and not turning 72 or older in the year. You must be a first-time home buyer, meaning you, or your spouse or common-law partner did not own a qualifying home that you lived in as your principal residence at any part of the calendar year before the account is opened or the preceding four calendar years.

Contributions and deductions

There is a lifetime contribution limit of \$40,000, and an annual contribution limit of \$8,000 in any year, including 2023.

You can carry forward up to \$8,000 of your unused annual contribution amount to use in a later year (subject to the lifetime contribution limit). For example, if you open an FHSA in 2023 and contribute \$5,000, you can contribute up to \$11,000 in 2024. Carry-forward amounts do not start accumulating until after opening an FHSA.

It is possible to hold more than one FHSA, but the total contribution amount to all FHSAs cannot exceed the annual and lifetime contribution limits.

Annual contribution limits apply to contributions made within the calendar year. Unlike RRSPs, contributions made within the first 60 days of a calendar year cannot be attributed to the previous tax year. FHSA contributions can be claimed as a deduction against all sources of taxable income. This deduction reduces your amount of taxable income for the year and, ultimately, your taxes payable. The actual tax savings will depend on your marginal tax rate.

If you contribute to your FHSA, you do not have to claim a deduction for that year. Like RRSP deductions, you will be able to carry forward undeducted contributions indefinitely and deduct them in a later year.

Like with other registered accounts, a tax on overcontributions applies to the FHSA for each month or part-month the account exceeds the limit. A 1% tax applies to the highest amount of the excess that existed in that month.

Income and gains

Income as well as capital gains (and capital losses) earned in an FHSA are not included in your annual income (or deductible) for tax purposes. This means income and capital gains can continue to grow and compound in the FHSA on a tax-free basis.

Qualifying investments

Qualifying investments are similar to those held by RRSPs and TFSAs and include mutual funds, exchange-traded funds (ETFs), publicly traded securities, government and corporate bonds and guaranteed investment certificates (GICs).

The same prohibited investment rules and non-qualified investment rules applicable to other registered accounts will apply to the FHSA. These rules disallow non-arm's length investments and investments in assets such as land, shares of private corporations and general partnership units.

Withdrawals and transfers

Qualifying withdrawals to buy a home are tax-free. To qualify, a withdrawal needs to meet these conditions:

- You must be a resident in Canada from the time of the withdrawal to the acquisition of the qualifying home and a first-time home buyer when you make the withdrawal. There is an exception to allow individuals to make qualifying withdrawals within 30 days of moving into a qualifying home.
- You must 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 a principal place of residence within one year after buying or building it.
- The qualifying home must be a housing unit located in Canada.

Funds left over after making a qualifying withdrawal can be transferred to another FHSA or RRSP or registered retirement income fund (RRIF), on a tax-free basis, before the end of the year following the year that first qualifying withdrawal is made. Transfers do not reduce or limit your available RRSP contribution room. Once transferred, the funds are subject to the rules of the applicable accounts, including that the funds will be taxable when you withdraw them from the account.

Withdrawals and transfers do not replenish FHSA contribution limits.

Non-qualifying withdrawals will be included in your amount of income for the year of the withdrawal and taxes will be withheld.

Comparing FHSA and the Home Buyers' Plan (HBP)

FHSA withdrawals and withdrawals under the HBP can be made for the same qualifying home purchase.

HBP withdrawals are borrowed from your RRSP (interest-free) and must be paid back within 15 years, whereas qualifying FHSA withdrawals are tax-free and do not need to be repaid.

If you do not buy a home within the 15-year FHSA limit, the funds can be transferred to your RRSP tax free before the end of the 15th year, where they can later be withdrawn under the HBP.

Because a transfer of funds from an FHSA to an RRSP will not reduce your available RRSP contribution room, you can effectively create more RRSP room by starting to contribute to your FHSA.

Closing the FHSA

The FHSA must be closed by December 31 of the year you turn age 71, by December 31 of the 15th anniversary of first opening the account if the funds have not been used to purchase a qualifying home, or by December 31 of the year following the year of the qualifying withdrawal.

Unused funds in the FHSA can be transferred to an RRSP or RRIF on a tax-free basis before the FHSA closure or withdrawn, but the withdrawal will be taxable.

If a withdrawal was made to purchase a qualifying home, unused funds can be transferred to an RRSP or RRIF on a tax-free basis until December 31 of the year following the year of the qualifying withdrawal.

Spousal treatment

Only the FHSA holder can claim a deduction for contributions made to their own FHSA. You cannot contribute to your spouse's and claim a deduction; however, you can gift funds to your spouse so that they can claim a deduction on their own FHSA contribution. Normally, if you gift funds to your spouse, attribution rules apply so all income earned and capital gains realized on those funds will be attributed back to you and taxed in your hands, but an exception applies to the FHSA that attribution rules will not apply to income earned and capital gains generated within an FHSA derived from these contributions. When the spouse withdraws amounts from the FHSA, only the spouse will need to include the amounts withdrawn in income. No portion of your gifted funds to your spouse's FHSA would be attributed back to you. Similarly, no attribution arises if you give cash to an adult child to contribute to their FHSA.

In the event of a marriage or common-law breakdown, you may transfer funds from your FHSA to your former spouse's FHSA, RRSP or RRIF. This will not reinstate an FHSA contribution room for you and would not use any contribution room of your former spouse. If your spouse has overcontributed, the amount eligible for transfer will be reduced.

Treatment on death

You may designate your spouse as a successor account holder. The surviving spouse would become the new holder immediately on death, so long as they meet the eligibility criteria to open an FHSA. Inheriting an FHSA in this way would not impact their contribution limits and would assume the surviving spouse's closure deadlines. If the surviving spouse is not eligible to open an FHSA, amounts can be transferred on a tax-deferred basis to their RRSP or RRIF or withdrawn on a taxable basis.

If the beneficiary is anyone other than a spouse, the funds will need to be withdrawn immediately following death and paid to the beneficiary. Amounts paid will be included in the beneficiary's income and subject to withholding tax.

Non-residents

You can continue to make contributions to your existing FHSA after moving from Canada but will not be able to make a qualifying withdrawal as a non-resident. To make a qualifying withdrawal, you must be a resident of Canada at the time of the withdrawal and up until the time the home is bought or built.

Non-qualifying withdrawals as a non-resident are subject to withholding tax.

This report is published by Fidelity with information that is believed to be accurate at the time of publishing. Fidelity and its subsidiaries and affiliates are not liable for any errors or omissions.

This information is for general knowledge only and should not be interpreted as tax advice or recommendations. Every individual's situation is unique and should be reviewed by his or her own personal legal and tax consultants.

© 2023 Fidelity Investments Canada ULC. All rights reserved.

INM-1125558 01/23 1137944-v2023110