

How Does the Home Buyers' Plan Work?



If you're ready to purchase your first home but you need a bit more money for the down payment, the Home Buyers' Plan (HBP) allows you to withdraw money from your RRSP to finance the purchase of your first home.

Here's what you need to know to take advantage of the HBP.

The Standard HBP

The HBP is a program established by the Canada Revenue Agency that allows first time home buyers or those who haven't owned a home in the five years preceding the withdrawal of an amount up to \$35,000 from their RRSP, to finance their down payment without being taxed immediately. For a couple, that could amount to \$70,000.

This popular program allows you to make a down payment on a potentially more expensive home than if you had tapped into your savings. The law requires that the down payment be equal to 20% of the value of the residence, or \$60,000 for a house that costs \$300,000, which is a significant amount for some. That being said, you can still buy a home with a 10% or even 5% down payment provided that you get mortgage insurance. This insurance costs several thousands of dollars though. So, in order to increase your down payment amount, tapping into your RRSP isn't such a bad idea!

It's worth mentioning that only you can make withdrawals from your RRSPs. Also, the home you purchase or build in Canada must become your primary residence before October 1st of the year following the RRSP withdrawal. Be careful if your project is a new construction as delays might jeopardize your strategy. The money you plan to use for the HBP has to have been deposited in the RRSP at least 90 days before making the withdrawal.

Olivia's Situation

To better understand how the standard HBP works, let's use Olivia's situation as an example. She wants to buy a condo that costs \$250,000 and she has \$35,000 for her down payment. She would like to put down \$50,000, or 20% of the value. With a HBP, she could withdraw the missing \$15,000 from her RRSP. She would then have up to 15 years to reimburse her withdrawal at a rate of at least 1/15th of the \$15,000 or \$1,000 every year. The first repayment can be made no later than December 31st of the 2nd year following the year she made the withdrawal. It's also important to note that the amounts used to reimburse the HBP do not have an impact on the maximum deductible for RRSP contribution

and the repayment cannot be deducted from your taxable income when you file your income tax return. Plus, if you fail to reimburse the minimum amount required, you will be taxed on that amount.

HBP Without an RRSP

If your RRSP isn't bursting at the seams but you still have enough for a down payment to buy a home (at least 5% of the price), you can still make use of the HBP. The HBP loan is one way that you could increase the amount of your down payment (and reduce the amount of your mortgage).

Here is the five-step plan:

- ▶ The bank lends you an amount that meets your maximum RRSP contribution (up to a maximum of \$35,000 or the limit for the HBP).
- ▶ You deposit this money into an RRSP for 90 days. You will have to pay interest on the loan.
- ▶ After 90 days, you withdraw this amount under the HBP and you use it to reimburse the RRSP loan. The bank will send you a tax receipt confirming your RRSP contribution.
- ▶ On your next tax return, you can include this RRSP deduction and benefit from a tax refund. The amount of this refund can be used to increase your down payment.
- ▶ You will then have to reimburse the amount you withdrew from your RRSP as per the conditions of the HBP within 15 years.

Using the RRSP loan to take advantage of the HBP is a great way to take advantage of the HBP immediately and having several years to repay the withdrawal amount.

Of course, you have to be well prepared to benefit from this strategy because it may take some time before the loan is approved. At times, in order to get a loan from the bank, they require that your offer be accepted. The tax refund could also take several weeks or even months to be sent to you. RRSP contributions must therefore be made around December or January.

Basically, the HBP can boost your down payment and reduce the cost of your mortgage payments. While you will still have to find the money that you borrowed from your RRSP or that you got from an RRSP loan within 15 years, overall it's not a bad deal, wouldn't you agree?

In any case, buying a property isn't something that should be taken lightly. A financial advisor from the National Bank can help you with your project and find the best solution for you.

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