First Home Savings Account

By Current Wealth Advisors

Bottom line: An FHSA is one of the most useful accounts available to young Canadians who may buy a first home. Contributions can create a tax deduction, investments can grow tax-free, and qualifying withdrawals for a first home are not taxable.

What is an FHSA?

A First Home Savings Account is a registered account for eligible first-time home buyers. It combines two useful tax features: contributions may be deductible like an RRSP, and qualifying withdrawals for a first home may be tax-free like a TFSA.

The basic rules

- You must be a **Canadian resident** aged 18 or older to open the account. You qualify as a first-time home buyer if you (and your spouse or common-law partner, if applicable) have not owned a home in which you lived as your principal residence at any time during the calendar year the account is opened, or during the preceding four calendar years.
- **Contributions reduce your taxable income** for the year, similar to an RRSP. However, unlike an RRSP, there is no "first 60 days" grace period into the new year; contributions must be physically deposited by December 31st to apply to that calendar tax year.
- All capital gains, dividends, and interest compound completely **tax-sheltered**.
- **Withdrawals are tax-exempt** when used to purchase a qualifying first home, operating exactly like a TFSA. Unlike the Home Buyers' Plan (HBP), the funds do not need to be repaid.
- The **annual contribution limit** is $8,000, with a lifetime maximum of $40,000.
- Unlike a TFSA, **contribution room only begins accumulating the year the account is opened**, not the year you turn 18.
- **Unused room carries forward**, but is capped at a maximum of $8,000 in carried-forward room for any given year. This means the maximum contribution in a single year is $16,000.
- The account can remain **open for a maximum of 15 years**, until the end of the year you turn 71, or the year following your first qualifying withdrawal – whichever occurs first.

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Strategy A: The "Bank of Mom and Dad" Tax Optimization

Parents frequently intend to assist their adult children with future real estate purchases. Rather than gifting a lump sum at the time of purchase, capital can be systematically gifted in $8,000 annual tranches to fund the child's FHSA.

- **The Mechanics:** The child receives the gift tax-free and contributes it to their FHSA.
- **The Benefit:** The child then claims the tax deduction against their own income. If the child is 18 and currently in a low tax bracket (e.g., attending university), they do not have to claim the deduction immediately. The Income Tax Act permits the indefinite carry-forward of the deduction. The child can hold the deduction on their ledger and apply it years later when they enter their peak earning years and face the highest marginal tax rates.

Strategy B: The $40,000 RRSP Expansion (The Backdoor)

A common hesitation regarding the FHSA is: *"What if I never buy a house, or what if I inherit real estate and lose my first-time buyer status?"*

- **The Mechanics:** If you do not utilize the FHSA for a qualifying home purchase within 15 years of opening the account (or by age 71), the capital does not vanish, nor is it forcibly taxed.
- **The Benefit:** The entire balance – including the original $40,000 principal plus all compounded growth – can be transferred directly into your RRSP on a tax-deferred basis. Critically, this transfer does not require or consume any of your existing RRSP contribution room. It effectively acts as a $40,000 bonus expansion to your lifetime RRSP capacity.

Strategy C: Spousal Coordination and the HBP Synergy

The FHSA operates on an individual basis. Two individuals purchasing a home together can each utilize their respective FHSAs, aggregating up to $80,000 in principal plus all generated tax-free growth.

- **The Mechanics:** Furthermore, the FHSA is not mutually exclusive with the Home Buyers' Plan (HBP). An individual can withdraw up to $60,000 from their RRSP via the HBP and combine it with their FHSA withdrawal for the same property.
- **The Benefit:** For a couple, this provides a combined tax-sheltered deployment capacity of over $200,000 toward a single transaction, heavily insulating the down payment from income tax erosion.

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3. Frequently Asked Questions

Can I use the FHSA to buy an investment property?

No. The withdrawal rules explicitly require you to have a written agreement to buy or build a qualifying home, and you must intend to occupy it as your principal residence within one year of buying or building it. If you currently own an investment property that you have *never* occupied, you generally still qualify to open an FHSA.

What if I move to the United States or abroad?

If you become a non-resident of Canada, you can continue to hold your FHSA. However, you cannot make new contributions, and a withdrawal made as a non-resident will be subject to withholding tax. Furthermore, the US IRS does not currently recognize the tax-exempt status of the FHSA in the same manner as an RRSP under the US-Canada Tax Treaty, meaning the growth may be taxable in the US. Cross-border consultation is mandatory in this scenario.

How should the FHSA be invested?

The investment approach should match the timing of the expected home purchase.

If the home purchase may happen soon, the priority is protecting the money. Cash, investment savings accounts, GICs, or short-term fixed income may be more appropriate.

If the home purchase is many years away, a more growth-oriented investment mix may be reasonable. The longer the time horizon, the more room there may be to accept short-term volatility.

The key is to avoid treating the FHSA as one-size-fits-all. A 22-year-old who may buy a condo in ten years is not in the same situation as someone planning to buy next spring.

For more information: See the webpage First Home Savings Account (FHSA) on the CRA's website here:

https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/first-home-savings-account.html

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