LONGVIEW
Asset Management Ltd.

FIRST HOME SAVINGS ACCOUNT (FHSA) PRIMER

Updated January 2024

- The First Home Savings Accounts (FHSAs) were introduced to Canadians in 2023, to assist individuals saving for the purchase of their first home.

- The investments in an FHSA grow tax-free and the contributions are tax-deductible for income tax purposes.

- There is no tax paid on withdrawals, if they are used to purchase a qualifying home.

- Any Canadian resident who is of the age of majority or older and considered a first-time home buyer can open an FHSA. To be considered a first-time home buyer, you cannot have owned a home that you resided in at any time during the calendar year when the account is opened or at any time in the preceding four calendar years.

Contributions

- The lifetime contribution limit to an FHSA is $40,000, and the annual contribution limit is $8,000. The full annual limit of $8,000 is available starting in the year that the account is opened.

- You can make contributions to your FHSA at any time during the calendar year. Unused contribution room can be carried forward and catch-up contributions can be made, up to a maximum of $8,000 per year.

Withdrawals

- You can make a withdrawal from your FHSA in a single lump sum or a series of withdrawals. For the withdrawal to be considered tax-free, you must:
  - Have bought your home no more than 30 days before making your initial withdrawal.
  - Have a written agreement to have bought or built your qualifying home before October 1st of the year following the year of your initial withdrawal and intend to occupy it as your primary residence within one year after buying or building it.

Estate Planning

- Surviving spouses (and common-law partners) can be named as Successor Holders of your FHSA if, on your death, they are a qualified first-time home buyer. If they are not a qualified buyer, or do not wish to take on the FHSA, the capital in the account can be contributed tax-free to the Successor Holder's RRSP/RRIF or withdrawn on a taxable basis.

- You can name anyone a Beneficiary of your FHSA. On your death, the capital will be withdrawn for the Beneficiary on a taxable basis.

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FREQUENTLY ASKED QUESTIONS (FAQs)

How is the FHSA different from the Home Buyers Plan (HBP) within an RRSP?

- Withdrawals from both types of accounts can be used to purchase your first home. However, unlike the HBP:
    - Earned income is not needed to create contribution room in an FHSA.
    - All of the capital can be withdrawn from an FHSA, unlike the HBP which has a $35,000 limit.
    - Money withdrawn from an FHSA does not need to be repaid.

When do I need to close my FHSA?

- Your FHSA must be closed by the earliest of:
    - December 31st of the 15th year after being opened.
    - December 31st of the year following your first qualifying withdrawal.
    - December 31st of the year you turn 71.

Can I make a withdrawal for a purpose other than buying my first home?

- Yes, but any withdrawals not used to purchase a qualifying home will be treated as taxable income.

What happens if I do not buy a home or a qualifying property?

- If you do not buy a qualifying home, or have residual funds leftover in your FHSA after a qualifying purchase, when you close the FHSA, you can roll the funds into your RRSP/RRIF on a tax-free basis or withdraw them as taxable income.

What types of investments can I own in an FHSA?

- You can own a wide variety of investments including cash, cash equivalents and securities listed on qualified exchanges, including stocks, bonds, exchange-traded funds, mutual funds and options.

- There are certain types of securities that can be owned in an FHSA, but ideally should not be because they incur some tax even inside the account. For example, none of the U.S. withholding tax incurred on the dividends of U.S. listed stocks is recoverable if received inside an FHSA, unlike if held in a taxable account or an RRSP.

What happens if I over-contribute to my FHSA?

- There is a 1% tax on over-contributions for each month (or partial month) that the over-contributions exist and based on the highest amount of the over-contribution in each month.

Can I open a joint FHSA or more than one FHSA?

- You cannot open a joint FHSA, but couples may each use their FHSA for the joint purchase of the same qualifying home.

- You can open more than one FHSA, but your overall contribution limits will remain unchanged.

Can I contribute to the FHSA of another family member and claim an income tax deduction?

- You can gift funds to your spouse or children so that they can make FHSA contributions. However, only the FHSA account holder(s) can claim income tax deduction for the contribution(s).

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PRO TIPS

Contribute to your FHSA before your RRSP or TFSA

- With your FHSA, you get the best of both worlds, if the capital is used to purchase a qualifying home. You can deduct your contributions for tax purposes and can withdraw the funds tax-free if/when you make a qualifying purchase.

Time your tax deductions

- If you anticipate that you will be in a higher tax bracket in the future, you may want to delay deducting your contributions in order to receive a greater tax benefit in the future.

Start contributing early

- The longer your capital grows in your FHSA, the more it will be worth when you make your qualifying purchase.

Year /(C$000)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Annual Contribution	8	8	8	8	8	-	-	-	-	-	-	-	-	-	-
Indicative Market Value	9	18	28	39	51	55	59	64	69	74	80	87	94	101	109

Note: Assuming annual contributions are made at the beginning of each year and that your investment return is 8%.

Transfer contribution amounts from your TFSA if you don't otherwise have the funds

- If you do not have the flexibility to contribute to both your FHSA and TFSA, you should consider moving your capital from your TFSA to your FHSA, provided that the capital is used to purchase a qualifying home. Your TFSA funds can be replaced at a later date when you have the financial capacity.

Pay your FHSA costs outside of your FHSA

- It is possible to pay the management fees for your FHSA investments outside of the FHSA to preserve capital inside the FHSA that can continue to grow tax-free. However, the fees paid outside will not be deductible for tax purposes.

Unused FHSA funds can be used to increase the size of your retirement fund

- When closing your FHSA, any unused funds can be rolled into your RRSP/RRIF tax-free, providing an incremental contribution to your retirement account.
    - Example: If you start an FHSA at age 18, contribute $40,000, keep it open for the maximum 15 years and then roll the FHSA into your RRSP/RRIF, and assuming that you earn 8% a year on your investments throughout, the capital will have grown to some $2.2 million when your RRSP converts to a RRIF at age 72.

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