

Tax-Free First Home Savings Account (FHSA) – Quick reference guide.

What is the FHSA?

The FHSA is a new savings account introduced by the Federal government in 2022. The Quebec Ministry of Finance confirmed on June 9, 2022, they will harmonize legislation with the Federal rules. We expect financial institutions to make the FHSA available after April 1, 2023. It has aspects like both the Registered Retirement Savings Plan (RRSP) and Tax-Free Savings Account (TFSA). However, the account also has some unique characteristics.

The FHSA creates another tax-efficient opportunity to save to buy a home. Below is a reference guide of frequently asked questions. Note, any reference to spouse below includes a common-law partner.

Opening an FHSA

Who can open an FHSA?

You can open an FHSA if you're:

- a resident of Canada;
- 18 years of age or older and under age 71. In provinces where the age of majority is 19, you can't open an account until age 19; and
- a first-time home buyer.

You can't open a joint FHSA.

Who is a first-time home buyer for purposes of opening an FHSA?

You or your spouse can't have owned a home you lived in as your principal place of residence:

- in the current year before you open the account (or before you make a qualifying withdrawal), or
- during the preceding four calendar years.

If I already own a home, can I open an FHSA?

Not if you lived in the home in the current year or any of the four preceding years. You wouldn't be a "first-time home buyer."

If my spouse already owns a home, can I open an FHSA?

Not if you lived in their home in the current year or any of the four preceding years. You wouldn't be a "first-time home buyer."

If I own a rental property, can I open an FHSA?

Yes, so long as you didn't live in the home in the year or any of the four preceding years.

Contributions and deductions

What are the contribution and deduction limits?

You can contribute and deduct:

- \$8,000 annually plus your carry forward amount (see below). This is also known as your 'annual FHSA limit,' and
- up to \$40,000 over your lifetime.

You must have an FHSA open to receive contribution room for the year. You receive the full \$8,000 room for the year even if you open the account partway through the year.

You can't deduct amounts you transfer from your RRSP to the FHSA. Also, you can't deduct contributions made after you make a tax-free qualifying withdrawal. For example, assume you open and contribute \$5,000 on January 1. You then make a qualifying withdrawal to purchase a home on July 1 of the same year. You can deduct the January 1, contribution. However, you can't deduct any contribution after July 1.

Can I carry forward unused FHSA contribution room?

You can carry forward up to \$8,000 of unused contribution room. You must have an FHSA account open to carry forward FHSA contribution room. For example, assume you open an FHSA in 2023. Your 2023 limit is \$8,000, but you contribute \$5,000 during 2023. In 2024 you'd have \$11,000 of total contribution room (\$8,000 new room and \$3,000 carry forward).

Alternatively, assume you open an FHSA in 2023. You contribute \$5,000 during 2023. You don't contribute to the FHSA in 2024 or 2025. In 2026 you'd have \$16,000 of contribution room (\$8,000 new room and \$8,000 carryforward). Note your carry forward is \$8,000 (not \$19,000) due to the \$8,000 carry forward limit.

Can I contribute to my FHSA in the first 60 days of the year and deduct against income for the prior tax year?

No. Unlike an RRSP, you can only make contributions and deduct them in the same calendar year or future years. You can't contribute in the first 60 days and deduct it against income for the previous tax year.

Can I contribute to my FHSA in the current year and defer deduction to a later year?

Yes. Like an RRSP you can contribute (within your limits) and claim the deduction in a later year. You may choose this if you expect your income to increase significantly in a future year.

Is there a spousal FHSA like the spousal RRSP?

No. Only the FHSA holder can make and deduct contributions to the FHSA.

Can I contribute to my spouse's or child's FHSA?

No. However, you can gift funds to your spouse or child to contribute to their own FHSA. Only the FHSA owner can open, contribute, and deduct contributions to their own FHSA.

Will funds gifted to my spouse or child to contribute to their FHSA be subject to attribution?

No. An exemption from the attribution rule applies to funds you gift to your spouse to contribute to their FHSA. There is generally no attribution on funds gifted to an adult child.

What happens if I overcontribute to my FHSA?

The Income Tax Act imposes a 1% penalty per month on any contribution amounts over your annual FHSA limit. You can't deduct overcontributions in the year you make the overcontribution. However, you can deduct it in the following year if you have new unused FHSA contribution room. The 1% penalty ceases when you either withdraw the overcontribution or you earn sufficient contribution room the following year.

For example, assume you open an FHSA and contribute \$10,000 in 2023. You have a \$2,000 overcontribution for 2023. A 1% penalty tax applies for each month you retain the overcontribution in the plan. On January 1, 2024, you receive additional contribution room of \$8,000 for 2024. You can deduct the \$2,000 overcontribution in 2024 and contribute and deduct up to \$6,000 more during the year. The 1% penalty ceases on January 1, 2024. Note you won't receive additional contribution room if you've surpassed your lifetime limit.

Can I transfer funds directly from an existing RRSP to the FHSA?

Yes, subject to the annual and lifetime FHSA limits. Transfers directly from an RRSP to an FHSA occur on a tax-deferred basis. However, you can't deduct amounts you transfer from an RRSP to an FHSA. Also, transfers from an RRSP to an FHSA don't reinstate your RRSP contribution room. Therefore, this strategy may not maximize use of your registered accounts. If you have available cash flow, consider contributions to the FHSA first rather than transfer from your RRSP.

Can I transfer funds from an existing TFSA to the FHSA?

Not directly. However, you can withdraw from your TFSA and make a deductible contribution to your FHSA subject to contribution limits. Withdrawals from your TFSA in the current

year regenerate TFSA contribution room the following January 1. Therefore, if you want to purchase a home, this strategy can maximize use of your registered accounts.

Will my annual FHSA limit reinstate after a withdrawal?

No. Unlike a TFSA, withdrawals from an FHSA don't reinstate contribution or deduction room the following year.

Withdrawals

How can I make a tax-free qualifying withdrawal from the FHSA?

You can withdraw funds tax-free if you are resident in Canada and a first-time homebuyer. The definition for purposes of making a qualifying withdrawal is different than opening an FHSA. You can't have owned a home in the preceding four calendar years. Further, you can't have owned a home in the current year for more than 30 days prior to the withdrawal. Like the Home Buyer's Plan (HBP) you must also:

- have a written agreement to buy or build a qualifying home in Canada before October 1 of the year following withdrawal; and
- intend to occupy the home as a principal residence within one year after buying or building it.

An exception also allows you to make a tax-free qualifying withdrawal within the first 30 days of owning the home.

What is a qualifying home?

A qualifying home is a housing unit located in Canada. This includes existing homes and those being constructed. Single-family, semi-detached, townhouses, mobile homes, condominium units, and apartments in duplexes, triplexes, fourplexes, or apartment buildings all qualify. A share in a co-operative housing corporation also qualifies if it entitles you to possess and gives you an equity interest in a housing unit located in Canada. The HBP defines a qualifying home in the same way.

What can I use the withdrawn funds for?

If you make a qualifying withdrawal (see above) there is no restriction on what you use the funds for.

Can I withdraw the funds if I don't purchase of a qualifying home?

Yes. However, it wouldn't be a tax-free qualifying withdrawal. You would include the withdrawal in your income and pay tax at your marginal tax rates. Or, you can transfer unused amounts to your RRSP/Registered Retirement Income Fund (RRIF) on a tax-deferred basis. See "Closing and transferring unused FHSA amounts" below.

Do I have to withdraw all funds at the same time?

No. However, once you make your first qualifying withdrawal, you must withdraw or transfer to your RRSP/RRIF all remaining funds by December 31 of the following year. To be tax-free,

each withdrawal needs to meet the qualifying withdrawal conditions above.

Can both myself and my spouse use our combined FHSA to buy the same qualifying home?

Yes, so long as you are both first-time home buyers.

Can I use the FHSA and HBP for the purchase of the same qualifying home?

The government initially said you couldn't combine the FHSA and HBP on the purchase of the same qualifying home. However, revised legislation allows you to use both the FHSA and HBP for the same qualifying home.

Closing and transferring unused FHSA amounts

How long can I have the FHSA account open?

You must close the FHSA by December 31 of the year of the earliest to occur:

- 15th anniversary of you opening the FHSA;
- You turn 71 years old;
- The year following a qualifying withdrawal. For example, if you make a qualifying withdrawal in 2028, you must close the account by December 31, 2029.

This is known as the maximum participation period (MPP).

What happens if I don't buy a home or only use a portion by the MPP deadline?

You can:

- transfer the unused amount to your RRSP or RRIF on a tax-deferred basis. You then pay tax when you later withdraw from the RRSP or RRIF; or
- withdraw the funds and pay tax at your marginal tax rates.

What happens if I don't close the account or transfer the unused funds by the MPP deadline?

You'll have a deemed income inclusion for the fair market value of the FHSA. You'll have to pay tax at your marginal tax rates. Therefore, if you have any remaining balance, we recommend you transfer it to your RRSP/RRIF before the MPP deadline.

Do I need unused RRSP contribution room to transfer from my FHSA to my RRSP/RRIF?

No. Transfers from the FHSA to your RRSP or RRIF don't require unused RRSP contribution room.

Are transfers from my FHSA to my RRSP/RRIF tax deductible?

No. Transfers from your FHSA to your RRSP/RRIF don't give you a deduction. You received a deduction when you first contributed to the FHSA.

Can I transfer my FHSA to my former spouse upon relationship breakdown?

Yes. You can transfer existing FHSA balances as part of property division on relationship breakdown on a tax-deferred basis. You can transfer to your former spouse's FHSA, RRSP or RRIF. However, transfers don't reinstate your FHSA contribution room. The transfer also doesn't affect the recipient spouse's contribution room.

Investments

What investments can I invest in within in my FHSA?

You can invest in the same investments as your other registered plans (e.g., RRSP or TFSA). The FHSA uses the same rules to determine qualified and prohibited investments as other registered plans.

Treatment upon death

What happens to my FHSA at death?

The FHSA account will pass to your named beneficiary, successor holder, or form part of your estate.

Can I name a successor holder for my FHSA?

Yes. Like the TFSA, you can name a spouse as successor holder allowing them to become the account holder. However, the account only retains its tax-exempt status if they're eligible to open an FHSA. See "Who can open an FHSA" above.

Provinces will need to update their laws to recognize a successor holder named outside your will for provincial matters like estate distribution or probate. Currently, we are waiting for provincial governments to determine their approach. Until then, you may need to name a successor holder in your will.

Does my spouse need FHSA contribution room to inherit my FHSA?

No. Inheriting an FHSA from a deceased spouse doesn't affect the surviving successor holder's FHSA contribution room.

What if my spouse inherits the FHSA and they aren't eligible to open an FHSA or doesn't want to retain the FHSA?

Your spouse:

- may choose to transfer the inherited amount to their RRSP or RRIF on a tax-deferred basis. They must transfer the amount by the end of the year following death. They then pay tax when they later withdraw from the RRSP or RRIF; or
- can withdraw the funds and pay tax at their marginal tax rates.

Does my spouse need RRSP contribution room to transfer the inherited FHSA to their RRSP/RRIF?

No. The rollover doesn't affect their RRSP contribution room.

What if I name my estate as beneficiary but my spouse inherits the FHSA indirectly through my estate?

If you name your estate as beneficiary of your FHSA, you may still benefit from the tax-deferred rollover. To achieve this, your spouse and legal representative of your estate may jointly elect to transfer the FHSA to:

- your spouse's FHSA on a tax-deferred rollover basis, subject to their eligibility to open an FHSA. See "Who can open an FHSA" above; or
- their RRSP or RRIF on a tax-deferred rollover basis.

Your spouse and legal representative can also elect to transfer the proceeds to your spouse as taxable cash. Your spouse includes the value of the FHSA in their income and pays the tax rather than your estate. Alternatively, your estate's legal representative can choose to retain the FHSA proceeds and have the estate pay the tax. The after-tax proceeds form part of the estate and pass to beneficiaries under the will.

Can I name a beneficiary for my FHSA?

Yes. Like a TFSA and RRSP, you can name a beneficiary for your FHSA. If the beneficiary isn't your spouse, your estate must close the account, withdraw the balance, and pay it to the beneficiary.

Provinces will need to update their laws to recognize a beneficiary named outside your will for provincial matters like estate distribution or probate. Currently, we are waiting for provincial governments to determine their approach. Until then, you may need to name a beneficiary in your will.

Who pays the tax on an inherited FHSA?

Unlike an RRSP, you don't include the value of the FHSA in your terminal return. The tax liability depends on who inherits the FHSA.

- **Spouse as recipient.** Your spouse can inherit the FHSA on a rollover basis and transfer to their FHSA, RRSP or RRIF. They may have to pay tax or transfer to their RRSP/RRIF if they aren't eligible to hold an FHSA. See "What if my spouse inherits the FHSA..." above.
- **Non-spouse recipient.** A non-spouse recipient includes the fair market value of the FHSA in their income in the year received. They pay tax at their marginal tax rates. Withholding tax applies at the same rate applicable to lump-sum payments from RRSP/RRIF.
- **Estate as recipient.** If your estate is the recipient, the estate includes the fair market value in its income. The estate pays the tax at its marginal tax rates. Withholding tax applies at the same rate applicable to lump-sum payments from RRSP/RRIF.

Comparing plans

How does it differ from an RRSP?

Like an RRSP, you receive a deduction against your income for contributions to the FHSA. The FHSA also grows tax-deferred

while funds remain in the account. However, unlike an RRSP, you can make a tax-free qualifying withdrawal.

How does it differ from a TFSA?

Like a TFSA, you can only contribute to your own FHSA. Funds also grow tax-free while they remain in the account. You can also make a qualifying withdrawal from the FHSA tax-free. Unlike the TFSA, you only accumulate contribution room if you open an FHSA account.

How does it differ from the HBP?

Like the HBP, you need to be a first-time home buyer to participate. In addition, you can withdraw funds tax-free to purchase a home. Unlike the HBP, you don't need to repay the FHSA withdrawn amount.

Bankruptcy

Are FHSAs protected under bankruptcy legislation like RRSPs?

Currently, FHSAs don't benefit from creditor protection under federal bankruptcy laws. You may be able to benefit from creditor protection under insurance legislation for insurance products held inside your FHSA. Provincial creditor protection isn't absolute and depends on provincial legislation and beneficiary named on the policy.

Non-residents

What happens if I become non-resident of Canada?

Only Canadian residents can open an FHSA.

If you become non-resident after opening an FHSA, you can retain and continue contributions subject to contribution limits. However, your financial institution's compliance rules may limit transactions for non-residents. Note foreign jurisdictions may tax investment returns under their tax laws.

You can't make a tax-free qualifying withdrawal as a non-resident. Withholding tax applies to any other withdrawal made by a non-resident at 25% (subject to treaty).

Can a Canadian resident U.S. taxpayer open an FHSA?

Like the TFSA, the U.S. tax rules don't currently recognize the tax-free status of the FHSA. This can potentially create double-tax problems and requires cross-border tax advice.

Disclaimer

This article provides general information only. Sun Life Assurance Company of Canada does not provide legal, accounting or taxation advice to advisors or clients. Before you act on any of the information contained in this article, make sure you seek advice from a qualified professional, including a thorough examination of your specific legal, accounting and tax situation. Any examples or illustrations in this article are included solely to help clarify the information presented in this article, and should not be relied on in any transaction.

Published and revised by: Estate & Financial Planning Services

Last revised July 2023

Sun Life Assurance Company of Canada is the insurer, and is a member of the Sun Life group of companies.

© Sun Life Assurance Company of Canada, 2023.