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TAX MATTERS

Do you have a spouse? Consider these FHSA strategies

SPECIAL TO THE GLOBE AND MAIL
PUBLISHED NOVEMBER 8, 2023

There's some exciting news around our home these days. Our oldest son, Win, just got engaged to a wonderful girl, Sarah. I was talking with him about what it's going to be like when he's married.

"Win, you're going to need to learn the art of compromise. Your mother and I compromise all the time. I admit that I'm wrong, and she agrees with me," I explained. "And it's very important to understand that whenever you talk with Sarah, the conversation will be recorded for quality and training purposes."

We then talked about financial things. In particular, I encouraged him to open a first home savings account, and we talked about how they work when you're married. Here are some pointers about FHSAs for those with a spouse.

Open an FHSA this year. If you're a first-time homebuyer (FTHB), make sure you open an FHSA in 2023. This is the first year these plans are available, and you won't start to accumulate "participation room" until you open an account. So, even if you don't contribute in 2023, open a plan. You can't participate in your spouse's FHSA; you each need your own plan. You'll each be given $8,000 of participation room in the year you open your FHSA and an additional $8,000 each year thereafter until you each reach the maximum $40,000 in room to contribute.

New data shows the FHSA is being used as intended: early on and by young people

Your spouse could affect your eligibility. You've got to be age 18, a Canadian resident and a FTHB to open an FHSA. Because a FTHB is defined as someone who has not, in the current or previous four calendar years, lived in a principal residence owned in whole or in part by the individual or their spouse (which also includes common-law partners under our tax law), it's important to open an FHSA before you get married or live with someone who already owns a home. You should know, however, that it's possible to open an FHSA if you qualify, then later get married or move in with a common-law partner who might own a home. In this case, you'll still be able to make tax-free withdrawals from the FHSA to buy a home later – even if it's purchased jointly with your spouse.

There are no spousal FHSAs. As I mentioned, each individual who qualifies must have their own FHSA. Unlike registered retirement savings plans (RRSP), there are no spousal FHSAs to which you can contribute. Further, you can't contribute to your spouse's FHSA and claim the deduction yourself; only the owner of the FHSA can claim a deduction for a contribution to the FHSA.

You can give your spouse money to contribute. If your spouse is eligible to have an FHSA but doesn't have funds available, you can give them money to contribute. Your spouse will be entitled to the tax deduction. The attribution rules, which can apply to tax income in your hands when you give money to your spouse to invest, won't apply in this case. That's because income earned in the FHSA is tax-free, as are withdrawals when made to buy a home, so there's no taxable income to attribute back to you.

Rob Carrick: Why you should jump on first home savings accounts right now, and four smart ways to do it

Use spousal RRSP dollars to contribute. Suppose you've set up a spousal RRSP. This is an RRSP to which you contribute (and receive the RRSP deduction), but your spouse will face tax on withdrawals later. There's an exception to this rule in that you'll face tax on the withdrawals – and not your spouse – to the extent you've made a contribution to the spousal RRSP in the year of the withdrawal, or the two prior calendar years. It's possible for any individual to contribute to an FHSA by transferring assets directly from their RRSP to their FHSA. Similarly, it's possible for your spouse to transfer assets from a spousal RRSP to their FHSA, provided you have not contributed to the spousal RRSP in the year of the transfer to the FHSA or the prior two calendar years.

Name your spouse as successor holder. When you set up your FHSA, consider naming your spouse as the successor holder, which will allow for a continuation of the FHSA and its tax-free status in the event of your death (in Quebec, you'll need to name your spouse in your will). There's a catch here, however: Your surviving spouse will have to be eligible for an FHSA. If your spouse doesn't qualify, the assets in your FHSA can be transferred to your surviving spouse's RRSP or registered retirement income fund (RRIF) – or they can be taxed upon withdrawal from the FHSA. You can also name your spouse, a charity or anyone else as beneficiary of your FHSA rather than successor holder – which is a topic for another day.

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