CESTNICK

TAX MATTERS

RRSP or FHSA, when saving for a house, keep an eye on your time frame, contribution limits

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My nephew, Luke, came to visit us and drove up in his residence. You read that right. Luke's been living in his van as part of what he calls a free-spirited, nomadic lifestyle that can help him save to buy a home. At the same time, he has an eye on the long term and knows he'll need to save for his retirement.

Luke has $10,000 to invest today and asked whether he should contribute it to his RRSP or a first-home savings account. Good question. Since RRSP season has arrived, let's talk about RRSPs versus FHSAs.

The Scenario

In Luke's case, he has $20,000 of unused RRSP contribution room, so he could contribute the full $10,000 to that plan. He's going to open an FHSA, and it's possible for first-time homebuyers to contribute $8,000 per year to an FHSA, to a maximum of $40,000 in a lifetime.

The question, then, is whether Luke should contribute to his RRSP, FHSA, or both? If he's hoping to buy a home, his first priority should be contributing to an FHSA. Why? First, he'll get the same tax deduction contributing $8,000 to an FHSA as he will with an RRSP. Second, the FHSA assets will grow tax-sheltered as with an RRSP, and when he buys a home, he'll be able to withdraw funds tax-free from the FHSA, which is more flexible than an RRSP.

Further, if he doesn't buy a home, he can transfer the FHSA assets to his RRSP later. But because he can only put $8,000 per year into his FHSA, he has another $2,000 available – which he should then contribute to his RRSP.

It's worth noting that an FHSA only has a lifespan of 15 years, so if you don't think you'll be ready to buy a home in that time, you may want to wait to open an FHSA.

As an aside, if Luke had opened the FHSA in 2023 (the first year these plans were available) and hadn't deposited any money into it, he'd have $8,000 in contribution room for both 2023 and 2024, for a total of $16,000. He would have been able to contribute up to $16,000 to the FHSA this year if that had been the case – which would've been ideal. You can double-up your FHSA contributions and deposit a maximum of

$16,000 in any one year if you have unused FHSA room from prior years.

Luke will be able to access his RRSP savings to help with a home purchase as well, by using the Home Buyers' Plan, which will allow him to withdraw up to $35,000 from his RRSP tax-free to help with a home purchase. If you can withdraw $35,000 from your RRSP under the HBP and can add to that $40,000 (plus any accumulated growth) that you withdraw from your FHSA, that can go a long way to making home ownership more possible.

The Considerations

The challenge with using the FHSA is that you can only contribute $8,000 per year, which is fine if you're starting to save now and don't plan to buy a home for a few years. Luke, however, is hoping to buy a home in the next year or so. Since he already has money in his RRSP, he thought it would be better to simply put the $10,000 into his RRSP this year and use the HBP to access $35,000 from his RRSP towards a home purchase.

I told Luke that he'd still be better off putting $8,000 into his FHSA because any withdrawals from his RRSP under the HBP must be repaid over 15 years. Not so with FHSA withdrawals. In fact, if you have money in your RRSP that you'd like to use for a home purchase under the HBP, you'd actually be better off transferring some of those assets from your RRSP to an FHSA before you make any withdrawals. That transfer can be tax-free as long as you have sufficient FHSA contribution room available. Then, when you make withdrawals from your FHSA there's no tax to pay and no requirement to repay the funds to your RRSP.

I also told Luke that he can contribute to an FHSA and then immediately make a withdrawal for a home purchase, and still be entitled to tax deduction for the contribution. There's no requirement for the funds to remain in the FHSA for any length of time. He can even buy a home and then make a tax-free withdrawal from the FHSA in the first 30 days of owning the home.

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