



CESTNICK

TAX MATTERS

Take advantage of two different registered plans to buy a home

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My kids are hoping to own their own homes one day. I'm pretty handy when it comes to fixing stuff around the house, so I'm hoping those skills have rubbed off on them – but time will tell. My son, Win, said to me last week “Dad, I've learned that duct tape fixes everything – temporarily.”

Buying a home is no easy task for young people in Canada today. That's no secret. So, I want to share an example of what it might look like for a young person who wants to take advantage of both the first home savings account (FHSA) and a registered retirement savings plan (RRSP) to make a home purchase.

The plans

As you probably know, an FHSA is a registered plan designed to help you save for a home. There are rules to follow – which I'll get to in a minute. You can also use an RRSP by taking advantage of the home buyers' plan (HBP). Under the HBP, you can withdraw up to \$60,000 per person (or \$120,000 for a couple) tax-free from your RRSP to buy a home.

These plans are different, but you can use both for the same qualifying home. In fact, using both can make it easier to fund a down payment. Let's compare them.

Eligibility: With an FHSA, you must be a first-time homebuyer: at least 18 years old, a Canadian resident and not have lived in a home you or your spouse owned in the current or previous four years. For the HBP, you need an RRSP, Canadian residency and an intention to live in the home as your principal residence within one year of making a withdrawal from your plan.

Contributions: You can contribute up to \$8,000 annually to an FHSA, to a \$40,000 lifetime maximum. HBP participation requires you to have RRSP contribution room, which is based on earned income (18 per cent of your prior-year income, up to \$33,810 for 2026).

Deductions: Contributions to both plans are tax-deductible, which typically generates a refund at tax time.

Withdrawals: FHSA withdrawals for a qualifying home are fully tax-free, provided certain conditions are met and the withdrawal is made within 15 years. HBP withdrawals are capped at \$60,000 per person.

Repayment: FHSA withdrawals don't require repayment, but HBP withdrawals must be repaid to your RRSP over 15 years, starting in the second year after the year of withdrawal.

Let's see how this can work in real life.

The example

Consider Virginia, who's 25. Let's assume she earns \$70,000 today (assume this increases by inflation over time) and is able to save 10 per cent of her take-home pay. She lives in Ontario, so she'll keep \$57,839 after taxes this year. Ten per cent of this is \$5,784, which she wants to set aside for her future home.

Since there's no cap on how much can be withdrawn from her FHSA, she's going to contribute to this plan first. Now, she's allowed to contribute \$8,000 to her FHSA, so she's going to borrow \$2,216 to add to her \$5,784. A small line of credit can work for this, or she can speak to her bank about a very short-term loan.

Her \$8,000 FHSA contribution will save her \$2,890 in taxes at her marginal tax rate of 36.12 per cent – which she's expecting to come back as a refund. She'll use her refund to pay off the loan.

Virginia is going to repeat this strategy early in every calendar year. After five years, she will have contributed the maximum \$40,000 to her FHSA. From the sixth year onward, she's going to contribute that 10 per cent of her take-home pay to her RRSP instead.

Again, she's going to maximize her RRSP contributions every year by borrowing to add to the amount of her own money she's contributing. Check out [my article](#) from Jan. 18, 2024, for details on how to calculate the amount you should borrow. Virginia will use her tax refund from her RRSP deduction each year to pay off the loan.

The results for Virginia? At the end of 15 years, she will have contributed \$30,705 of her cash to her FHSA and \$77,045 to her RRSP, for total contributions of \$107,750. When you add the borrowed funds over those years (\$9,295 for her FHSA and \$45,529 for her RRSP) her total contributions to both plans will be \$162,575.

Assuming growth in those plans at 6 per cent annually for 15 years, she'll have \$85,607 in her FHSA and \$168,462 in her RRSP (of which she can access \$60,000 under the HBP). So, she'll have \$145,607 available for a down payment (\$85,607 plus \$60,000). After 10 years, she'll have \$123,971 available, and after 12 years, she'll have \$131,877.

This should be enough for her to buy her first home, even assuming growth in home values between now and then.

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