

Disciplined approach to wealth management

Machel & Associates

Wealth Advisory Group

Monday Morning Minute with Mike Machel

You Asked: Is the FHSA or HBP Better for (Grand)Kids?

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The FHSA is a registered account that combines the best of the Registered Retirement Savings Plan (RRSP) and Tax-Free Savings Account (TFSA): Contributions are tax deductible (similar to the RRSP) and withdrawals are tax free (similar to the TFSA) if used to purchase a first home. Annual contributions of \$8,000, to a lifetime limit of \$40,000, can grow tax sheltered. The account can stay open for 15 years.

The HBP allows first-time buyers to tap their existing RRSP, subject to conditions, for a tax-free withdrawal

of up to \$35,000. The amount must be repaid within 15 years; otherwise, it will be considered taxable income.

Simply put, the FHSA allows holders to save and grow funds to purchase a first home, whereas the HBP acts as an interest-free loan from the RRSP. The good news? They can both be used for the purchase of a new home.

Considerations: Growth, Funding, Withdrawals & Unused Amounts

While both can be valuable tools, in brief, here are some considerations:

Growth potential – For both the FHSA and RRSP, starting earlier allows greater time for funds to grow on a tax-deferred basis. Given the FHSA's 15-year limit, if an investor starts early and opens the account at age 18, by maximizing contributions from the outset, at a five percent annual rate of return the account could grow to over \$75,000 by age 33. This is the average age of a first-time home buyer.

Funding accounts – Both the RRSP and FHSA allow for tax-deductible contributions. While tax-free transfers from the RRSP are allowed to fund the FHSA, keep in mind this eliminates the important tax benefit of the FHSA: a transfer from the RRSP will not generate a tax deduction and won't reinstate RRSP contribution room.

Withdrawals – Funds can be withdrawn tax free from the FHSA for the purchase of a new home. HBP withdrawals are tax free as long as they are repaid within 15 years; otherwise, they will be considered taxable income.

Unused amounts – If you decide not to purchase a first home, unused FHSA amounts can be transferred to the RRSP. This will not affect existing RRSP contribution room, effectively increasing overall contribution room.

Which to Prioritize: FHSA or RRSP?

If funds are limited, which account should be funded first? The choice may be impacted by various factors, such as timing and ability to repay the HBP. However, in many cases, prioritizing the FHSA may be beneficial. There are very few "gifts" that the government gives us and the potential for tax-deductible contributions and tax-free withdrawals should not be overlooked. You may also be able to access a greater amount for a down payment with the FHSA; in our example, the FHSA grows to \$75,000, whereas the HBP has a \$35,000 limit. There is also flexibility: If FHSA funds are unused, they can be transferred to the RRSP, increasing total RRSP contribution room and future potential tax-deferred

growth. While the FHSA may provide additional flexibility for some as there is no repayment requirement, unlike the HBP, consider that the HBP repayment preserves valuable RRSP contribution room and allows for future tax-deferred growth for retirement.

The Bottom Line: Both the FHSA and RRSP's HBP are great tools to support a first-home buyer. If possible, maximize contributions to both accounts. The ability to grow funds on a tax-advantaged basis should not be overlooked!

cdn.nar.realtor/sites/default/files/documents/2021-highlights-from-the-profile-of-homebuyers-and-sellers-11-11-2021.pdf

Have a great week.

Warmest Regards,

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