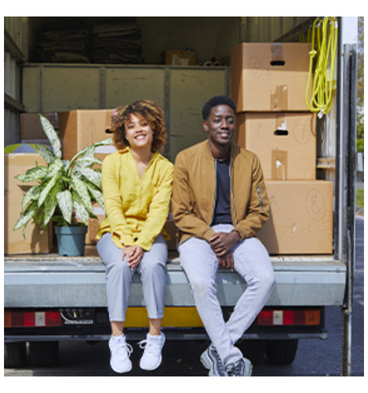
What's the difference between an FHSA, a TFSA and an RRSP?



On April 1, 2023, the federal government launched a new registered savings plan, the **First Home Savings Account (FHSA)**, which allows eligible prospective first-time home buyers to save for a qualifying home tax-free (up to a certain limit). Like many Canadians, you may have questions about how the new account works, how it differs from existing **registered plans** and, ultimately, whether or not the FHSA could be right for you.

To help you decide, we've compiled a quick guide.

What is an FHSA?

The new First Home Savings Account is a registered plan that could be seen as a hybrid version of a **Registered Retirement Savings Plan (RRSP)** and a **Tax-Free Savings Account (TFSA)** for the purpose of buying a first home. For example, like a TFSA, the FHSA allows your savings to grow tax-free without having to pay tax when making a qualified withdrawal to purchase a qualifying home.[1] At the same time, like an RRSP, funds contributed to an FHSA are generally tax-deductible — meaning that you can claim an income tax deduction for your eligible contributions each taxation year. Unlike RRSPs, contributions that you make to your FHSAs during the first 60 days of the year are not deductible on your previous year's income tax and benefit return. You also cannot claim a tax deduction for any FHSA contributions that you make after your first qualifying withdrawal.

What are the rules?

To be eligible to open an FHSA, you must be 18 years or older (but no more than 71 years on December 31 of the year you open an FHSA), a resident of Canada and be considered a "first-time home buyer."[2] For the purposes of opening an FHSA, you may be considered a first-time home buyer if you have not lived in, as your principal place of residence, a home that you own or co-own in the year you plan to open the FHSA or at any point in the preceding four years.[3]

If your spouse or partner owns a home (for instance, through an inheritance or through a previous marriage) but you are not the co-owner and you do not live in the home, and have not lived in it at any point in the preceding four years, you may be considered a "first-time home buyer" for the purpose of opening an FHSA to purchase a (separate) home. But if you are not the co-owner with your spouse or partner but live in their home, you will be considered ineligible to open an FHSA.

Additionally, if you lived in a home owned by your spouse or common law partner during the relevant time, but the individual is no longer your spouse at the time the account is opened, you may be considered a "first-time home buyer."

An FHSA account holder can contribute up to $8,000 to their FHSA each year, up to $40,000 during the Maximum Participation Period (defined below). This contribution room begins accumulating once an account is opened, even if you don't begin making contributions right away. Note, you can only carry forward a maximum of $8,000 in unused contribution room to the following year for a maximum yearly contribution of $16,000.[5]

Contributions may be made with cash or with funds transferred from your RRSP. However, if you transfer funds from your RRSP, these amounts are not tax-deductible and will affect your FHSA contribution room. Unlike some types of registered accounts, an FHSA can only be held until December 31st of the year in which the earliest of the following occurs: the 15th anniversary of opening your first FHSA, the year you turn 71 or the year following your first qualifying withdrawal ("Maximum Participation Period"). If you do not purchase a home within that period, you must close your FHSA and the fair market value in the plan will be taxable income. Alternatively, you may directly transfer your savings to your RRSP or Registered Retirement Income Fund (RRIF) before you close your FHSA: Your tax consequences will depend on your personal circumstances.[6]

If you are a couple looking to purchase a home, it's important to note that both you and your partner must open your own FHSA, provided you each qualify individually. As a couple, you can both use your qualifying FHSAs withdrawals for the same qualifying home purchase.[1]

What's the difference between an FHSA, a TFSA and an RRSP?

FHSA account holders enjoy many of the same perks offered by a TFSA or an RRSP.

For example, TFSA holders generally enjoy tax-free withdrawals at any time, but don't receive a tax deduction for their contributions. Conversely, RRSP holders can claim their contributions against their income, but must pay tax on withdrawals, except in instances like the Home Buyers' Plan (HBP). With an FHSA, qualifying withdrawals are tax-free. Contributions to your FHSA are generally tax-deductible.

What's the difference between an RRSP HBP withdrawal and a qualifying withdrawal from an FHSA?

Although both the HBP and the FHSA may be available to help you fund the purchase of a home, the HBP only allows you to borrow money from your RRSP — you'll be required to pay it back within 15 years. When you make a qualifying withdrawal from your FHSA, you are not required to pay it back to your FHSA.[1] You can also participate in both the HBP and make a qualifying withdrawal from your FHSA for the same qualifying home, as long as you meet all requirements at the time of each withdrawal.

FHSAs, TFSAs and RRSPs all have benefits and drawbacks depending on your personal situation and you may be able to use a combination of accounts to help achieve your specific financial goal. Here are some other key differences and similarities to know when you're saving to buy a home:

	FHSA	RRSP	TFSA
How does it help me buy a house?	Invest your eligible contributions and use them for purchasing a qualifying home.	Withdraw from your RRSP and use the amount towards your qualifying home purchase under the Home Buyers' Plan.[7] You can borrow up to $60,000 from your existing RRSP, but the borrowed funds must be paid back within 15 years.	Invest your eligible contributions and use them for a home purchase (or anything else you want).
What are the contribution rules?	$8,000 is the annual contribution limit. Carry-forward rules apply.[1] $40,000 lifetime contribution limit during the Maximum Participation Period.	The lesser of 18% of your previous year's income or the current fixed contribution limit either $29,210 for 2022 or $30,780 for 2023.). You carry forward any unused contribution room from the year before.[8] No lifetime contribution limit.	$6,500 is the annual contribution limit for 2023. You carry forward unused contribution room from the year you turn 18 or from the year you become a permanent Canadian resident. No lifetime contribution limit.
Who's eligible to open an account?	Canadian residents 18 years or older but not more than 71 years on December 31 of the year you open an FHSA, who have a valid Social Insurance Number (SIN) and are considered a first-time home buyer.[2]	Canadian residents (for tax purposes) up to the end of the year you turn 71, who have earned income and filed an income tax and benefit return. Some financial institutions may require customers to be the age of majority.	Canadian residents 18 years or older who have a valid SIN. There is no upper age limit to hold a TFSA, unlike an FHSA and an RRSP.[2]
Will I get a tax deduction on eligible contributions?	Eligible contributions are tax-deductible (except on transfers into your FHSA from your RRSP).	Eligible contributions are tax-deductible (except on transfers into your RRSP from your FHSA).	No. Contributions are not tax-deductible.
Key Advantages	Funds in the account grow tax-free, which could mean more money for a qualifying home purchase. You may also be able to transfer funds tax-free from your FHSA to an RRSP or RRIF in your name.[9]	Funds can be used towards the purchase of a qualifying home under the HBP. Investments can grow within the plan tax-deferred.	Funds in the account grow tax-free and you can use the value of the account for anything you like, including towards the purchase of a home.
Limitations	An FHSA can only be held until December 31st of the year in which the earliest of the following occurs: the 15th anniversary of opening your first FHSA, the year you turn 71 or the year following your first qualifying withdrawal.	Under the HBP, any **RRSP withdrawal** used to buy or build a qualifying home must be returned to your RRSP within 15 years and repayment begins the second year after the year when you first withdrew funds. If you fail to repay the required amount in a given year, that amount will be added as taxable income in that year. However, 2024 Federal Budget is providing temporary repayment relief for participants making a first withdrawal between **January 1, 2022, and December 31, 2025**. The 15-year repayment period would start on the fifth year following the year in which a first withdrawal was made.	**Contributions made to a TFSA** are not tax-deductible.

Frequently Asked Questions

- Can I give my children funds to open their own FHSA?
- If I owned a house but sold it 10 years ago and have been renting a home since then, am I eligible to open an FHSA?
- If I open an FHSA but don't make a qualifying withdrawal before my Maximum Participation Period ends, what happens to my contributions?