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Tax & Estate

# Home Buyers' Plans (HBPs)

Under the federal government's Home Buyers' Plan (HBP), a first-time homebuyer can withdraw funds from his or her registered retirement saving plan (RRSP) to purchase a qualifying home. Disabled persons and supporting persons can participate in the HBP without having to qualify as a first-time homebuyer.

## What is a qualifying home?

A qualifying home is a housing unit that

- is located in Canada,
- will be acquired or built before October 1 of the calendar year after the year of withdrawal, and
- is intended to be occupied as the participants'† principal place of residence no later than one year after it is acquired or built.

Both existing and newly built homes are eligible. A qualifying home can be a detached or semi-detached house, a townhouse, a condominium, a mobile home, an apartment in an apartment building or a share in a co-operative housing corporation if you are buying an equity interest in a housing unit in Canada.

† In a situation where the participant is assisting a related person with a disability to buy or build a qualifying home, he or she must intend that the related person with a disability occupies the qualifying home.

**Example 1 – Qualifying periods**

You make an HBP withdrawal on November 1, 2016. Therefore, in order to qualify you could not have owned a home any time from January 1, 2012 until October 1, 2016. Disabled persons or individuals related to disabled persons who wish to buy either a more easily accessible home in which the disabled person would live, or to purchase a home that is better suited for the personal needs and care of the disabled person, are exempt from this requirement.

## Who qualifies as a first-time homebuyer?

You are considered a first-time homebuyer if you are a resident of Canada and you have not occupied a home you (or your spouse or common-law partner) owned as a principal place of residence during the past four full calendar years. If you are divorced, you may be able to participate in the HBP if your name was not listed on the title of the home you lived in with your former spouse.

## Person with a disability

If you are a person with a disability or are assisting a related person with a disability to buy or build a qualifying home, you are not required to be considered a first-time homebuyer. The qualifying home must be better suited to the needs of the disabled person or more accessible than his or her current home. In order to qualify, the person with the disability must either

- be entitled to the disability amount (Line 316 on the federal income tax return) in the year before the HBP withdrawal and still meet the eligibility requirements when the HBP is made, or
- where the person was not entitled to the disability amount for any year before the HBP withdrawal, Canada Revenue Agency (CRA) Form T2201 (titled Disability Tax Credit Certificate), certified by a qualified practitioner, is filed for the person in the year the HBP withdrawal is made.

## Can I participate in the HBP more than once?

Since 1999 you have been allowed to participate in the HBP more than once. Any amounts you received previously under the HBP must have been repaid before the beginning of the year of re-participation. In addition, you must still qualify as a first-time homebuyer, as described on the previous page.

## How much time do I have to buy a home once I make an RRSP withdrawal?

You have until September 30 of the year following the year of withdrawal to buy or build a qualifying home. For example, if you make a withdrawal in March 2016, you must act before October 1, 2017.

## What is the maximum amount that I can withdraw from my RRSP?

Effective January 28, 2009, each participant can borrow up to $25,000 from his or her RRSP(s). The previous limit was $20,000 per eligible HBP participant. If you buy the qualifying home with your spouse or common-law partner, or other individuals, each participant can withdraw up to $25,000 from his or her own RRSP(s). As a participant in the HBP, you have to receive all withdrawals in the same year or by the end of January of the following year. Any withdrawal received after January may not be an eligible withdrawal under the HBP and you may have to include it in your income. Furthermore, the final withdrawal under the HBP must be made no later than 30 days after the closing date.

### Spousal or common-law partner RRSPs

- If your spouse or common-law partner contributes to a spousal RRSP under which you are the annuitant, any withdrawal by you to buy or build a home will not be attributed back to your spouse or common-law partner
- If the money is not used to buy a home, amounts not repaid to the RRSP must be reported as income of the individual who withdrew the money (i.e., the annuitant)
- When the participant repays the withdrawals from the RRSP, the repayments may be made to any RRSP or pooled registered pension plan (PRPP) under which the participant is the annuitant (RRSP) or member (PRPP)[‡] (i.e., repayments to a spousal or common-law partner RRSP in which your spouse or common-law partner is the annuitant are not permitted)

### Group RRSPs

If you contribute to an employer-sponsored group RRSP, you may be penalized for early withdrawals, depending on the terms and conditions of the plan. Ask your employer for more details.

[‡] HBP repayments can be made into an RRSP or PRPP of the individual. However, HBP withdrawals may only be facilitated through an individual's RRSP.

## What if I make a withdrawal from my RRSP and fail to buy or build a qualifying home?

If you don't buy a qualifying home by the required date, you generally have until December 31 of the year you were supposed to purchase a home to return the funds to your RRSP and cancel your participation in the plan. If the funds are not returned, the withdrawal amount will become taxable in the year withdrawn.

If, for example, you withdraw in 2016 and don't buy a home before October 1, 2017, you must repay the funds and cancel your participation by December 31, 2017. Any portion of your withdrawal not repaid by this date will have to be included in your income for 2016.

## How do these withdrawals affect any new RRSP contributions?

To prevent people from simply contributing to an RRSP for the tax deduction and then cashing it out tax-free as a withdrawal under the HBP, the tax rules state that RRSP contributions withdrawn within 90 days are ineligible to be deducted from income in any year.

To determine the amount of RRSP contributions that are not deductible, you must perform a simple calculation (see examples 2 and 3): Subtract the fair market value of the particular RRSP immediately after your withdrawal under the HBP from all amounts you contributed to that plan during the 89-day period prior to the withdrawal. In other words, for you to deduct your entire RRSP contributions made within the 89-day period just before your withdrawal, the value of your RRSP at the time of withdrawal, excluding the contributions made during this period, must exceed the amount you withdraw.

The HBP balance is based on the net amount received from the HBP withdrawal. If deferred sales charge (DSC) fees were incurred, only the net amount received would be considered your HBP withdrawal.

Note that these rules apply on a plan-by-plan basis – you must look at the fair market value of only the RRSP from which you withdrew under the HBP to determine if a contribution is deductible.

**Example 2**

You contributed $15,000 to your RRSP on April 1, 2016. In June 2016, less than 90 days later, you withdrew $25,000 under the HBP for a down payment on a new home. The fair market value of your RRSP at the time of withdrawal was $27,000.

**Is any amount of your $15,000 contribution non-deductible?**

| | |
|---|---|
| Total amounts contributed to your RRSP during the 89-day period prior to your withdrawal under the HBP: | $15,000 |
| Less the fair market value of your RRSP immediately after withdrawal ($27,000 – $25,000): | $2,000 |
| Amount that is not deductible in any year (if negative, enter 0): | $13,000 |

**Example 3**

You contributed $15,000 to your RRSP on April 1, 2016. In June 2016, less than 90 days later, you withdrew $25,000 under the HBP for a down payment on a new home. The fair market value of your RRSP at the time of withdrawal was $44,000.

**Is any amount of your $15,000 contribution non-deductible?**

| | |
|---|---|
| Total amounts contributed to your RRSP during the 89-day period prior to your withdrawal under the HBP: | $15,000 |
| Less the fair market value of your RRSP immediately after withdrawal ($44,000 – $25,000): | $19,000 |
| Amount that is not deductible in any year (if negative, enter 0): | 0 |

**Example 4 – Making the repayments**

A $26,000 redemption is made under the HBP, incurring $1,000 in DSC fees. The HBP balance would be $25,000, and the annual repayment schedule would be calculated by dividing $25,000 over 15 years.

| Amount borrowed | Minimum annual payment | Monthly payback |
|---|---|---|
| $5,000.00 | $333.33 | $27.78 |
| 10,000.00 | 666.67 | 55.56 |
| 15,000.00 | 1,000.00 | 83.33 |
| 20,000.00 | 1,333.33 | 111.11 |
| 25,000.00 | 1,666.67 | 138.89 |

All participants in the HBP who have a balance due at the end of the year must file an income tax return even if no tax is payable.

## How do I repay my RRSP?

Under the HBP, you must repay yourself (through your RRSP or PRPP) over a 15-year period, beginning the second calendar year after the year of withdrawal. Every year you must pay back a portion of the amount borrowed from your RRSP, starting with 1/15 of the outstanding balance in the first year. These payments are not considered RRSP contributions and are not tax-deductible.

In the fall, you will receive a statement from CRA entitled Home Buyers' Plan (HBP) Statement of Account, which will tell you what you have repaid, the balance to be repaid and the minimum repayment for the next year. Interest will not be charged, and the withdrawal will not be taxed provided the minimum payments are repaid to an RRSP or PRPP over the applicable 15-year period. The money doesn't have to be repaid to the same RRSP from which the withdrawal was made, but repayment can be made to an individual RRSP for which the participant is the annuitant (i.e., not a spousal or common-law partner plan).

Depending on your financial situation, you may choose to pay more or less than these scheduled annual amounts. If you pay less, the amount you do not repay must be included as income on your tax return for that year. If you pay more, you will reduce your outstanding balance. This would result in lower annual repayments in subsequent years.

**Example 5 – Income inclusion for non-repayment**

Sophia made a $24,000 HBP withdrawal in September 2014. Her first repayment of $1,600 will be due in 2016. If she decides to repay less than the required amount, the difference will be included in her income for that year.

If she decides to repay more than the required amount, it will affect her total balance owing and her annual minimum payment will be recalculated based on the amount outstanding and the number of years left in her repayment schedule.

| Year | Amount required to be repaid in year | Amount Sophia repaid to RRSP (assumed) | Taken into income | HBP balance |
|---|---|---|---|---|
| 2016 | $1,600[1] | $0 | $1,600 | $22,400 |
| 2017 | 1,600 | 800 | 800 | 20,800 |
| 2018 | 1,600 | 1,600 | 0 | 19,200 |
| 2019 | 1,600 | 1,000 | 600 | 17,600 |
| 2020 | 1,600 | 4,600 | 0 | 13,000 |
| 2021 | 1,300[2] | 1,300 | 0 | 11,700 |
| 2022 | 1,300 | 1,300 | 0 | 10,400 |
| 2023 | 1,300 | 0 | 1,300 | 9,100 |
| 2024 | 1,300 | 1,300 | 0 | 7,800 |
| 2025 | 1,300 | 1,300 | 0 | 6,500 |
| 2026 | 1,300 | 1,300 | 0 | 5,200 |
| 2027 | 1,300 | 1,300 | 0 | 3,900 |
| 2028 | 1,300 | 1,300 | 0 | 2,600 |
| 2029 | 1,300 | 1,300 | 0 | 1,300 |
| 2030 | 1,300 | 1,300 | 0 | 0 |

[1] Calculated as $24,000 (total eligible amounts) ÷ 15 (number of years in repayment period).
[2] Calculated as [$24,000 (total eligible amounts) – $8,000 (repaid to RRSP) – $3,000 (taken into income)] ÷ 10 (number of years remaining in repayment period).

**Example 6 – Income inclusion due to emigration**

Allan made a $15,000 HBP withdrawal in 2008. His repayment period began in 2010, at which time he made a $1,000 repayment. He made subsequent repayments of $1,000 annually from 2011 to 2015. In 2016 he made a $500 repayment in September. On November 15, he became a non-resident. He has until January 13, 2017 to repay the outstanding balance of $8,500 ($15,000 – ($1,000 x 6) – $500). On January 10, before he filed his tax return for 2016, he made an additional repayment of $1,000. As a result, Allan will have to include the remaining $7,500 ($8,500 – $1,000) in his income for 2016, reported on his final Canadian tax return prior to departure.

## What happens if the participant becomes a non-resident of Canada?

If the HBP participant becomes a non-resident, the HBP balance must be repaid at the earlier of the tax return filing deadline or 60 days after becoming a non- resident. Any amount that has not already been repaid or taken into income in an earlier year will be included in the participant's income for the year when he or she ceased to be a Canadian resident.

## What happens in the year the participant turns 71?

Similarly, you must repay your entire HBP balance by the end of the year you reach age 71. If you do not do so, then you will have to include in your income, for each later year, the amount that would be your annual repayment as it becomes due.

**Example 7 – Repayment treatment due to spousal death**

Peter and Mary, who are spouses, each withdrew $18,000 under the HBP in 2013 to buy a qualifying home. Their repayment periods began in 2015, at which time they each made a $1,200 repayment. In 2016, before any repayments had been made, Mary died. Mary's income inclusion for 2016 is $16,800 ($18,000 – $1,200). However, Peter and Mary's legal representative can elect to add Mary's outstanding HBP balance to Peter's, resulting in Peter having an outstanding balance of $33,600 (($18,000 – $1,200) x 2), in which case the income will not be included on Mary's return.

## Death of participant

If you should pass away before repaying your HBP balance in full, then any unpaid HBP balance must be included in your income for the year of death (Line 129 on the federal income tax return). However, if at the time of death you had a spouse or common-law partner who is a Canadian resident, he or she can instead elect to continue the repayments to his or her own RRSP or PRPP, on the same repayment schedule as your HBP. If the surviving spouse or common-law partner had his or her own outstanding HBP balance, then the deceased's balance will be added to the surviving spouse's or common-law partner's, and will have to be repaid based on the surviving spouse's or common-law partner's schedule. Otherwise, the repayment schedule will be the same as the deceased's.

If your spouse or common-law partner elects to make the repayments and you had not made a repayment during the year of death, the CRA will not require a repayment from you for that year.

To make the election, the surviving spouse or common-law partner and your legal representative must jointly sign a letter and attach it to your tax return for the year of death. The letter must include

- a statement that an election is being made to have the surviving spouse or common-law partner continue making repayments under the HBP, and,
- due to the election, that the income inclusion rule will not apply for you.

## Conclusion

The HBP allows the participant to borrow money from his or her RRSP. The participant has the option to gradually repay his or her RRSP or PRPP, so the tax deferral associated with his or her prior years' RRSP contributions is not lost. The HBP also allows the participant to spread the income inclusion over a number of years, instead of at the time of withdrawal. A combination of repayment and income inclusion may also be feasible.

Potential participants should keep in mind that they are losing the tax-deferred growth while the funds are not in the RRSP. If non-registered funds are available, they should generally be considered first, unless there are negative tax consequences to doing so. However, for people who have most of their savings in their RRSPs, the HBP provides them with an opportunity to buy or build a qualifying home.

We strongly recommend you consult your own tax advisor to understand the tax implications for your personal circumstances.

## Additional information

For more information about this topic, contact your advisor, call us at 1.800.874.6275 or visit our website at **www.invesco.ca**.

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