Your Guide to Understanding the

FHSA

FIRST HOME SAVINGS ACCOUNT

2022/2023

This brochure has been created to provide basic information regarding the First Home Savings Account as a courtesy of your financial institution and is based on proposed legislation published in November and approved December 2022.

All examples provided are hypothetical and for illustrative purposes only. Please contact your investment representative at your branch to obtain personalized advice on your financial plan. Further information related to the FHSA and other registered products may be obtained by phone at **1-800-959-8281** or through the Government of Canada website **https://www.canada.ca/en/department-finance/news/2022/08/design-of-the-tax-free-first-home-savings-account.html**

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What is an FHSA?

Proposed in the 2022 federal budget, the Tax-Free First Home Savings Account (FHSA) is an investment arrangement available to Canadian residents aged 18 or older, that allows first-time home buyers a tax advantage option to save for a down payment. Contributions to an FHSA are deductible from income, like an RRSP, while income and gains are tax-free, like a TFSA.

The owner of the plan, known as the holder, makes tax-deductible contributions to the FHSA and must meet the qualifying conditions to participate in the arrangement and have a valid Social Insurance Number (SIN) when the account is opened.

Who Can Open an FHSA?

Eligibility requirements

An FHSA is available to individuals who meet all the following requirements:

- Is a resident of Canada at the time of purchase;
- Is between the ages of 18 to 71;
- Has a valid SIN, and
- Is a first-time home buyer

A first-time home buyer means that you have not owned a home, in which you lived in, any time during the year the account is opened or at any time in the preceding four calendar years.

As holder and owner of the FHSA, you can have as many accounts as you wish if you do not exceed the annual and lifetime limits as provided by the Canada Revenue Agency (CRA).

It is important that you keep track of your FHSA contributions to avoid any over-contribution penalties imposed by the CRA.

An FHSA is only available to individuals and not available for purchase by a corporation or trust.

Features and Benefits

Compound growth and tax-sheltered savings

One of the primary benefits of an FHSA is the tax-deductible contributions and the advantages of tax-free growth. By contributing early, your investment will magnify returns over time through compounding.

An FHSA allows you to invest money in the account without being taxed on the income and growth of the assets held in the FHSA. This tax-free compounding growth results in faster savings compared to investing in a non-registered account.

Participation period

An FHSA can only be open for 15 years and must be closed by the end of the year when the holder reaches age 71. Additionally, the FHSA must be closed within one year of making a qualifying withdrawal to purchase your first home. **You cannot open another FHSA after any one of these events occurs.**

Any amounts in the FHSA that are not used to purchase a qualifying home can be transferred to your RRSP or RRIF on a tax-free basis. Otherwise, the amounts can be withdrawn on a taxable basis.

FHSA contribution rules

The FHSA contribution limit is the maximum amount that can be contributed to an FHSA.

Starting in 2023, qualifying individuals can contribute $8,000 per year to their FHSA. Unused contributions, up to $8,000, can be carried forward to future tax years subject to a maximum lifetime limit of $40,000. Carry forward room starts to accumulate after the FHSA is opened.

EXAMPLE

Maggie wants to save for her first home, so she speaks with her advisor and decides to open an FHSA in 2023. Maggie contributes $2,000. Since she did not use the full $8,000 annual limit, she is able to carry forward $6,000 to a future tax year. In 2024 Maggie's allowable contribution limit is $14,000, her annual $8,000 limit plus $6,000 carry forward amount. Maggie can contribute any amount up to her annual limit and carry forward amount without triggering an over contribution penalty.

Alternatively, if Maggie did not open the FHSA in 2023, she would not have generated any carry forward amount, and her 2024 contribution limit would be set at $8,000.

Once available, individuals can obtain the most up-to-date information about their FHSA contribution limit by accessing "My Account" or "My CRA" on the CRA website, or by calling the CRA's Tax Information Phone Service at 1.800.267.6999 (TIPS).

SIN requirements

The CRA will register an FHSA when the holder's surname, SIN and date of birth match their records. The CRA will not accept the FHSA for registration if one or more of the required data elements does not match the information in their files.

Savings for your first home

The FHSA is a unique savings vehicle that is designed to help you save towards a down payment on your first home, unlike a TFSA which is used to save for a variety of unplanned expenses and big-ticket items, or an RRSP that is used to save for your retirement. The savings in your FHSA can only be used towards your first home purchase.

When used for this purpose, all your savings grow tax-free, and the amount withdrawn is not included in your income purchase.

Any amounts not used towards your first home can be transferred to your RRSP or RRIF or included in your taxable income.

Contributions and Withdrawals

Contributions

Contributions to an FHSA may only be made by the holder of the account. However, individuals may gift their spouse or common-law-partner with money to make a direct contribution to their FHSA without triggering income attribution rules.

The maximum FHSA contribution dollar limit for 2023 and subsequent years is $8,000 subject to a lifetime contribution limit of $40,000. The annual limit is not income tested and is not based on the holder's earned income like an RRSP.

The holder can carry forward up to $8,000 in unused contributions, subject to the lifetime limit. Carry forward room begins once the FHSA is opened.

As with the RRSP, FHSA contributions are tax-deductible. For every dollar you place in your FHSA, you can take a deduction against your income in the year of deposit, or you can carry forward your un-deducted contributions indefinitely to claim in a future tax year.

The holder can direct an in-kind transfer or a contribution of non-registered securities to their FHSA provided the property being contributed is accepted by the financial institution and is a qualified investment under the *Income Tax Act*.

REMINDER

In-kind contributions are considered a deemed disposition of capital property for tax purposes and may trigger a capital gain if the Fair Market Value (FMV) of the property exceeds its Adjusted Cost Base (ACB) at the time the transaction occurs. If the property is transferred at a loss, the capital loss is not deductible, and the property will be transferred at its FMV.

Unused contribution

When a holder contributes less than the annual $8,000 FHSA limit, the difference is referred to as an "unused contribution".

Unused contributions may be carried forward indefinitely and used in future years. Therefore, after 2023, a holder could contribute more than the annual limit up to their maximum unused contribution room, in any given year.

Unused contributions are limited to $8,000 and are subject to the lifetime limit of $40,000.

Over contributions

The holder is responsible for ensuring their maximum contribution room limit is not exceeded.

An over contribution will result in a penalty tax on the over contributed amount at a rate of 1% per month for each month the over contribution remains in the FHSA.

A withdrawal to correct over contributions does not increase unused contribution room.

It is important for the holder to keep track of their FHSA contributions, especially if the holder has multiple FHSAs (as the annual contribution limit is per person, not per account).

Qualifying withdrawals

A qualifying withdrawal is non-taxable to the holder. Certain conditions must be met for the holder to receive the withdrawal tax-free. The conditions are similar to the home-buyers withdrawal from an RRSP and must be made in prescribed form, provided by the CRA, and include the holder meeting the following terms:

- First-time home buyer
- Resident of Canada
- The withdrawal is made within 30 days of moving into the home
- Has written agreement to buy or build a qualifying home before October 1st of the year following the withdrawal
- The qualifying home is in Canada

When these conditions are met, a holder may withdraw funds at any time, unless restricted by investment terms (e.g., 3-year fixed deposit).

A qualifying withdrawal does not generate taxable income and does not affect any income tested benefits or credits of the holder.

If you don't use the full amount of your FHSA towards a qualifying withdrawal, amounts remaining after making a qualified withdrawal can be transferred, tax-free, to an RRSP or RRIF in the holder's name. The transfer must take place by the end of the year following the qualifying withdrawal.

EXAMPLE

John's FHSA balance in $30,000. He makes a qualifying withdrawal in 2030 of $20,000 to purchase his first home. He can transfer the unused amount of $10,000 to his RRSP tax-free as long as the transfer is made on or before December 31, 2031.

Any unused amounts transferred to an RRSP or RRIF will be subject to the rules of those accounts.

Qualifying FHSA withdrawals do not impact eligibility for income-tested benefits and credits (e.g., OAS, GIS, Age Credit, HST/GST, EI, Canada Child Benefit, or the Canada Worker's Benefit (CWB), formerly known as the Working Income Tax Benefit).

You can maximize your down payment by using the FHSA in conjunction with your RRSPs Home Buyers Plan (HBP) for the same qualifying home. This provides up to $75,000 to use towards your first home purchase. If two individuals are eligible for both the FHSA and HPB that provides up to $150,000.

The HBP program is currently set at a maximum withdrawal of $35,000, subject to terms and conditions of the RRSP.

EXAMPLE

Kelsey and Jarod both have saved the $40,000 maximum in their FHSA towards their first home purchase. They both have sufficient funds in their RRSPs to take advantage of the $35,000 HBP withdrawal. This provides them with a total of $150,000 towards their down payment. Only the HBP portion has a pay back requirement over a 15-year period.

Non-Resident Holders

The CRA may consider an individual a non-resident of Canada for tax purposes if they:

- Normally, customarily or routinely live in another country;
- Live outside Canada throughout the tax year;
- Stay in Canada for less than 183 days in the tax year;
- Have no significant residential ties to Canada, such as a home, a spouse or common-law partner, or dependents.

If you own an FHSA and subsequently become a non-resident of Canada, the FHSA may remain open and retain its tax-free status, and you may still make contributions, however you cannot make a qualifying withdrawal. **Withdrawals by a non-resident would be subject to withholding tax.**

Transfers

An FHSA is transferable to:

- Another FHSA, RRSP or RRIF owned by the holder, unless restricted by investment terms (e.g., 3-year fixed deposit);
- The FHSA, RRSP or RRIF of a spouse/ common-law partner named as the successor holder on the death of the holder; or

- The FHSA, RRSP or RRIF of a former spouse/ common-law partner on a relationship breakdown.

In all the above cases, a transfer will not affect the contribution room of the account holder receiving the funds. A holder can instruct a financial institution to transfer from one FHSA to another FHSA in his or her name provided the proceeds are transferred directly between the FHSAs. If funds are paid out first it would be considered a withdrawal. **When funds are withdrawn, FHSA contribution room is not reinstated,** so withdrawing funds to re-contribute to a new FHSA in the holder's name could result in an over contribution penalty situation.

Transfers from the holder's FHSA to an RRSP or RRIF in their name can take place on a tax-deferred basis and does not have any effect on the holder's RRSP contribution room.

Transfers between FHSAs can only occur where the holder or successor meets the eligibility requirements.

The holder may also transfer from their RRSP or RRIF to an FHSA in their name on a tax-free basis. However, the transfer would be subject to the holder's annual and lifetime FHSA limits. A transfer to the FHSA cannot be deducted from the holder's income and would not reinstate any RRSP contribution room.

EXAMPLE

In December 2022, Kuldip wanted to start growing his FHSA, so he instructed his credit union to transfer $8,000 from his RRSP to his FHSA. He can transfer this amount as it is within the annual maximum contribution limit of $8,000. Kuldip cannot deduct this amount from income as it was a tax-free transfer from his RRSP. The amount of the transfer will not be added back to his RRSP contribution room.

Relationship breakdown

When there is a breakdown in marriage or common-law partnership, an amount can be transferred directly from one individual's FHSA to the other's FHSA, RRSP, or RRIF without affecting the transferee's contribution room. **This type of transfer would not reinstate the contribution room of the individual making the transfer.**

The following conditions must be met:

- The spouses or common-law partners are living separate and apart at the time of transfer; and
- The amount they are entitled to arises from a decree, order, or judgment of a court, or under a written separation agreement.

The transfer must be made directly between the FHSA, RRSP or RRIF.

No attribution rules

If an individual gives property to his or her spouse or common-law partner, the income earned on the transferred property is treated as income of the transferor.

The FHSA provides an exception to these "attribution rules." Individuals can take advantage of the FHSA contribution room available to them using funds gifted by their spouse or common-law partner without the spouse or common-law partner incurring a tax liability on the income earned.

Canada Revenue Agency

FHSA contribution room

The FHSA contribution room is the maximum amount that can be contributed to an FHSA.

Starting in the 2023 tax year, qualifying individuals can open an FHSA and make an annual contribution of up to $8,000. The annual contribution room is set at $8,000 per year subject to a lifetime limit of $40,000.

Contributions can be deducted from income for the year of the deposit. Unlike the RRSP, there are no provisions to allocate contributions made within the first 60 days of the year to the previous tax year. However, un-deducted contributions can be carried forward to be deducted against income in a future tax year.

Unused contributions can be carried forward indefinitely, however the maximum amount that can be carried forward is set at $8,000 and subject to the lifetime limit of $40,000.

EXAMPLE

Alan makes a deposit of $1,500 to his FHSA on February 6th, 2024. This amount can only be used as a deduction against his income in the 2024 (or subsequent) tax year and can not be used against his 2023 income. There is no carry back provision for contributions made in the first 60 days as there is with an RRSP.

Once available, individuals can obtain the most up-to-date information about their FHSA contribution room by accessing "My Account" or "My CRA" on the CRA website or by calling the CRA's Tax Information Phone Service at 1.800.267.6999 (TIPS).

Surname, SIN and date of birth must match CRA records

The CRA will register an FHSA when the Holder's surname, SIN and date of birth match their records. The CRA will not accept the FHSA for registration if one or more of the required data elements does not match the information in their files.

Death of an FHSA holder

An FHSA is an effective estate management tool by providing for the designation of a successor or beneficiary on the account, effectively by-passing the holder's estate and probate fees.

A holder may designate any individual to receive the proceeds of the FHSA upon their death. The following appointments apply in all jurisdictions except for Quebec:

Spouse as successor holder

An FHSA holder may appoint his or her spouse or common-law partner as the successor holder either in the FHSA account or in their will.

If named as the successor holder, the surviving spouse or common-law partner could become the new holder of the FHSA immediately upon the death of the original holder. The successor must meet the FHSA eligibility criteria for the account to maintain its tax-exempt status. Inheriting the FHSA as successor would not impact the successor's FHSA contribution limits. The FHSA's account closure deadlines would fall under the closure requirements for the successor.

The successor holder, after taking over ownership of the FHSA, can make qualifying withdrawals from that account and can also make new contributions to that account (subject to their own unused FHSA contribution room).

If the successor does not meet the FHSA eligibility requirements, they could direct the transfer of the inherited FHSA to an RRSP or RRIF in their name. Otherwise, the amount must be withdrawn on a taxable basis. Withdrawals will be taxed at source and the full amount will be reported on a tax information slip (T4) and included in the recipient's taxable income for the year.

Alternatively, a joint election could be made by the legal representative and the survivor to treat the FHSA proceeds paid to the estate as having been transferred to an FHSA, RRSP, or RRIF of the survivor. Either of these elections result in a deemed tax-free transfer from the FHSA to the survivors registered account.

A joint election to pay the FHSA proceeds to the survivor in cash shifts the tax liability from the estate to the survivor.

Designated beneficiaries

Where permitted by law, the holder of an FHSA may designate an individual, other than their spouse/common-law partner, as beneficiary or may choose not to name any beneficiary at all.

When an FHSA holder dies, and there is no successor holder appointed, the FHSA ceases to exist and no longer benefits from a tax-free status. The full value of the FHSA is considered taxable income to the receiving beneficiary or to the deceased' holder's estate and is subject to withholding tax at the time of payment.

EXAMPLE

Susan's father passed away November 9, 2025. The value of his FHSA was $24,000. Susan is named the sole beneficiary on the FHSA. The FHSA is settled to Susan on March 10, 2026, in the amount of $24,300. As the entire value of the FHSA is taxable to the beneficiary, Susan received $17,010 ($24, 300 less 30% tax) and must include the full amount as taxable income on her 2026 income tax return.

Note withholding taxes for an FHSA are the same as for an RRSP:

Amount of payment Year	Withhold tax rate (all provinces except QC)
Up to $5000	10%
$5,001 to $15,000	20%
More than $15,000	30%

Donation to a qualified donee

If a Canadian registered charity was named as a beneficiary of the deceased holder's FHSA, the transfer of funds to the registered charity must occur within the 36-month period following the holder's death. If the transfer occurs during this 36-month period, the transfer is deemed to be a donation or gift made immediately before the holder's death.

Examples of a qualified donee:

- A registered charity
- A registered Canadian amateur athletic association
- A registered journalism organization
- A registered Canadian municipality

The holder should seek independent tax-advice prior to designating a charitable organization as a beneficiary of their FHSA.

All beneficiary designations are subject to the acceptance of the financial institution.

Borrowing Money to Purchase an FHSA

Interest on money borrowed to invest in an FHSA is not deductible for tax purposes, unlike the money borrowed to buy non-registered investments.

Use of FHSA as security for a loan

If a trust governed by an FHSA allows any property as security for a loan, the value of the property must be included in the FHSA holder's taxable income.

Tax Payable & Penalties

Excess FHSA amount

Over contributions above the annual contribution limit are subject to a penalty tax of 1% per month on the excess amount. In addition, the CRA may impose additional penalties on any income earned from the excess contribution.

The 1% per month penalty will continue to apply for each month, or part of a month, that the excess amount remains in the FHSA, and it will continue to apply until the earlier of:

- The entire excess amount is withdrawn; or
- The entire excess amount is eliminated when the holder's annual contribution limit is reset.

The holder can deduct the over-contributed amount from income for a given year in the tax year the amount ceases to be an over contribution. **You cannot claim a deduction for an over contributed amount.**

If a partial withdrawal of the excess contribution is made, the 1% per month penalty will be reduced by that withdrawal.

EXAMPLE

Lisa contributes $12,000 on December 15, 2023, and does not withdraw it. Lisa's contribution exceeds the annual limit by $4,000 resulting in a penalty tax of $40 (1% x $4,000 x 1 month). The $4,000 excess amount would cease to be an over-contribution on January 1, 2024, when the annual $8,000 limit becomes available.

It is important for the holder to keep track of their FHSA contributions, especially if the holder has multiple FHSAs (as the annual contribution limit is per person, not per account).

Non-resident contribution

A non-resident can continue to make contributions to their FHSA after emigrating from Canada, however they cannot make a qualifying withdrawal. Withdrawals by a non-resident of Canada are subject to withholding tax.

The holder must be a resident of Canada to make a qualifying withdrawal including up to the time the home is bought or built.

Non-qualified or prohibited investments

An FHSA is subject to severe tax consequences in any of the following scenarios:

- The FHSA holds a non-qualified investment;
- The FHSA carries on a business (such as day trading); or
- The FHSA invests in a prohibited investment.

If any of the above situations occur, the FHSA will be taxed on any income earned and capital gains derived from the non-qualified investment or business are subject to trust-reporting requirements to the CRA.

The FHSA holder is jointly and severally, or solely, liable with the trust issuer to pay any tax liability resulting from carrying on a business. The issuer's liability is limited to the property held in the FHSA.

Prohibited investments are subject to a 50% tax on the value of the property at the time it was purchased or became a prohibited investment, and subject to a 100% advantage tax on any income or gains derived from the property while it remains in the FHSA. The CRA implemented these tax measures to discourage abusive tax-planning arrangements within an FHSA.

Prohibited transactions

Swap transactions are prohibited in an FHSA. These rules prevent the FHSA holder from transferring investments (such as cash and securities) between the FHSA and the holder's non-registered account(s) regardless of whether the transfer was done at fair market value.

Any swap transactions that occur in the FHSA will be subject to a 100% advantage tax based on the value of the assets being swapped.

Account advantages and benefits

If the holder of an FHSA was provided with an advantage or certain benefit or debt that is conditional on the existence of the account, the FHSA may be subject to tax:

- In the case of a benefit, the FMV of the benefit; and
- In the case of a debt or loan, the amount of the debt or loan.

The Income Tax Act stipulates that an FHSA issuer cannot provide the holder with any benefits or advantages that are in any way conditional on the existence of the FHSA such as merchandise, trips or interest-free loans. These types of incentives are taxable to the holder.

The CRA has granted exceptions to certain benefits, which will not be taxed to the holder so long as the benefit is credited directly to the FHSA and not to the holder.

FHSA vs. Non-Registered Investment Account

In an FHSA, investment income and capital gains are not subject to tax resulting in your savings growing faster than they would in a traditional non-registered investment account.

Initial Contribution	Total Contributions	Total Growth
$8,000	$32,000	$17,132.35

*Balance after ten years: $57,132.35 ($75,214.93 after 15 years)

Assumptions: The above results are based on making an initial contribution of $8,000 and annual contributions of $3,200 at the beginning of the year for 10 years and earning an annual rate of return of $5.5%. And, leaving the balance to grow for 5 years after the $40,000 lifetime contribution limit is reached.

The benefits of the FHSA over a non-registered investment account increases as the holder's marginal tax rate increases.

This example is hypothetical and for illustrative purposes only and is not intended as a replacement for investment advice.

FHSA, TFSA and RRSP comparison

The FHSA, TFSA and the RRSP both offer tax efficient savings, but there are key differences, as noted below:

Features	FHSA	TFSA	RRSP
Purpose	**Save for down payment**	**General savings**	**Save for retirement**
Tax deductible deposits	✓	✗	✓
First 60-day contribution provision	✗	✗	✓
Residency Requirements (Resident of Canada when the account is opened)	✓	✓	✗
Contribution limit based on earned income	✗	✗	✓
Spousal contributions allowed	✗	✗	✓
Qualifying withdrawals impact federal gov't benefits	✗	✗	✓
Maximum age limit (71)	✓	✗	✓
Tax free growth	✓	✓	✓
Tax-free withdrawals	✓	✓	✗
Pay back requirements	✗	✗	✓
Transfers	Can transfer to an FHSA, RRSP or RRIF	Can transfer to a TFSA	Can transfer to an RRSP, RRIF or FHSA (transfers to an FHSA are subject to annual and lifetime limits.)
Estate preservation	Can name a successor or beneficiary. Successor can transfer to an FHSA, RRSP or RRIF	Can name a successor or beneficiary	Can name a beneficiary. A spouse beneficiary can transfer to an RRSP or RRIF.
Tax treatment on death	Cash settlements are fully taxable to the beneficiary. The holder is not taxed on the date of death amount.	Income earned after date of death is taxable to the beneficiary. The holder is not taxed on the date of death amount.	Income earned after date of death is taxable to the beneficiary. There is no tax where the spouse transfers to an RRSP or RRIF. The holder is taxed on the date of death amount if not transferred to the spouse's registered account.
Maximum Contribution (2023)	Annual limit	Annual limit	Lessor of $30,780 or 18% of previous year's earned income.

How Do You Get Started?

The information contained in this brochure is based on draft legislation published in November and approved December 2022. The FHSA comes into effect April 1, 2023. Please visit your local credit union to determine when the product will be available and how an FHSA can enhance your financial plan.

Before making any investment decisions, it is advised that you ask your credit union advisor about deposit insurance protection.