

This Month:

- Federal Budget Changes to the Home Buyer's Plan and the New First-Time Home Buyer's Incentive



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The Home Buyer's Plan is a program that allows you to take a tax-free, lump-sum withdrawal from your RRSP in order to buy or build a home that you plan on living in, within a year from the date of purchase or construction completion. The withdrawal must be made using form T1036 "Home Buyer's Plan Request to Withdraw Funds from an RRSP".

After a two-year period, you have to start making annual repayments to replenish your RRSP. There is a maximum of fifteen years provided for the repayment. Since the amount of funds withdrawn wasn't taxable, the repayment is not deductible and doesn't affect your RRSP deduction limit. If less than the required annual repayment is made, it will be added to your income. Of course, a larger repayment can be made, and the remaining annual repayments will be reduced because of this. The CRA will send a Home Buyer's Plan statement of account each year with your notice of assessment, which is received after filing your tax return. This statement will indicate the amount you have repaid so far, the remaining balance owing and the amount you need to repay for the upcoming year. This statement can also be viewed online if you have registered for *My Account* with the CRA.

Unless you are a person with a disability or you are helping a related person with a disability buy or build a home for their specific needs, you must be a "first time" home buyer to qualify for this program. A "first-time home buyer" generally means that in the prior 4 years, neither you nor your spouse/common law partner owned a home.

[Continued on back]

The March 2019 Federal budget proposed some improvements to the Home Buyer's Plan.

1. The budget has proposed to increase the maximum withdrawal from \$25 000 to \$35 000. Therefore, on a combined basis, a couple could withdraw up to \$70 000 from their RRSPs to purchase a first home. If your withdrawal was made between January 1, 2019 and March 19, 2019 and you satisfy the existing requirement that neither you nor your spouse /common-law partner owned the qualifying home for more than 30 days before making the final withdrawal in 2019, then you can withdraw additional funds after March 19, 2019, as long as the total of all your withdrawals in 2019 does not exceed the new maximum amount of \$35,000.
2. Persons who have had a relationship breakdown will be able to access the Home Buyer's Plan to assist with buying a new residence, or to purchase their former partner's interest in the family home. That is, the definition of a "first time home buyer" will be modified to allow for these circumstances.

Specifically, you could qualify if you live separate and apart from your spouse/common-law partner for a period of at least 90 days as a result of a relationship breakdown. However, if you have a new spouse/common-law partner at the time of the withdrawal, the new spouse or common-law partner must not own and occupy a home that is your principal place of residence.

The federal budget also introduced a **new "First-Time Home Buyer's Incentive"** (FTHBI), which is a shared equity mortgage that would give first-time home buyers the ability to lower their borrowing costs by sharing the cost of buying a home with the Canada Mortgage and Housing Corporation (CMHC). The program is supposed to be in place by September 2019. However, the program still needs to be approved and put in place, so details about the plan are not available at this time. In general, the incentive is aimed at assisting first-time home buyers without adding financial burden. There would be no monthly scheduled payments, although repayment would have to be made if the home is sold. The incentive will be limited to households with a maximum combined income of \$120 000 and for a total borrowing limited to four times income. The program will apply up to a house price of \$505 000 and assumes a 5% down payment.

On a final note, a first-time home buyer shouldn't forget to claim the Home Buyer's Amount in their personal tax return. A tax credit is given on a flat \$5 000 amount, which provides a \$750 credit against taxes payable.

Please note that these comments are intended to provide general information and should not replace specific professional advice for your situation. Please contact your Padgett representative if you have further questions.



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