

Planning with FHSAs

June 2025

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The First Home Savings Account (FHSA) allows prospective first-time home buyers the ability to save up to \$40,000 on a tax-free basis towards the purchase of a first home in Canada. Similar to a Registered Retirement Savings Plan (RRSP), contributions to an FHSA are tax-deductible (but not transfers from an RRSP) and withdrawals to purchase a first home, including withdrawals of any investment income or growth earned in the account, are non-taxable, just like with Tax-Free Savings Accounts (TFSA).

To open an FHSA, you must be a resident of Canada and at least 18 years of age. In addition, you must be a first-time home buyer, meaning that you and/or your spouse or common-law partner have not owned a home in which you lived as your principal place of residence at any time during the part of the calendar year before the account is opened or at any time in the preceding four calendar years.

Starting in the year that you open an FHSA, you can contribute (or transfer from RRSPs) a total of \$8,000 plus any carryforward available from the previous year without incurring a penalty tax on excess contributions. Carryforward amounts only start accumulating after you open an FHSA for the first time. You also need to make sure that you don't exceed the lifetime maximum of \$40,000 for all contributions and RRSP transfers, which could be reached in five years. There is a penalty tax of 1% per month on excess contributions.

You will have an FHSA carryforward available in a year if in the previous year you did not contribute or transfer to an FHSA the maximum amount you had available. The maximum amount that can be contributed to your FHSA or transferred from your RRSPs in any one year is \$16,000.

Let's review three scenarios where an FHSA may make sense for your family.

Combining the FHSA and other registered plans

Jonah is 26 and hopes to buy a home together with his partner, Valerie, in the next 10 to 15 years. He plans to use the FHSA, his TFSA, and the Home Buyer's Plan (HBP) for the downpayment.



Using these plans together could add up to substantial downpayment dollars, as we'll demonstrate below.

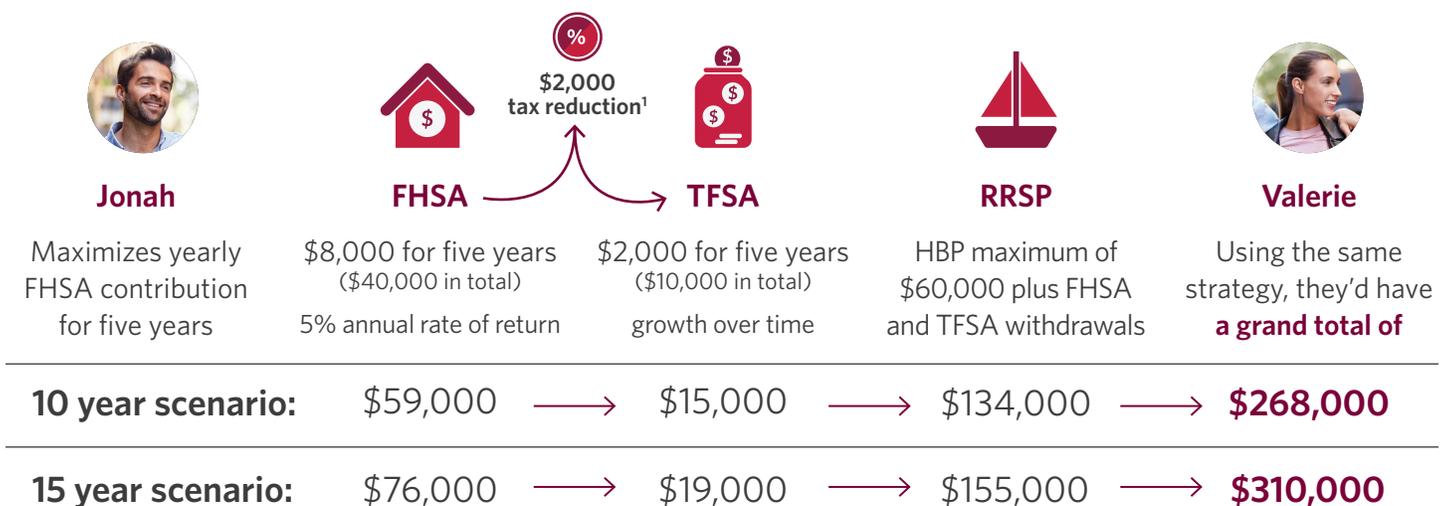
Jonah contributes \$8,000 to an FHSA for five years, and assuming a 5% annual rate of return, the \$40,000 in total contributions would be worth just over \$59,000 after 10 years.

As Jonah is taxed at an assumed 25% marginal tax rate, these contributions would result in a \$2,000 tax reduction (\$8,000 X 25%) annually over the five years of contributions. Jonah uses that \$2,000 of annual tax savings to fund a contribution to a TFSA, resulting in \$10,000 of TFSA contributions over the five years. At the end of 10 years from the date of the original contribution, using that same 5% rate of return, those \$10,000 in contributions could grow to almost \$15,000. Combining his FHSA and TFSA, this amounts to a total of over \$74,000 to use towards the home purchase. If the funds were left to grow for the maximum of 15 years, the total available using a 5% rate of return would be approximately \$95,000.

As a quick reminder, the HBP is a program that permits eligible individuals to withdraw up to \$60,000 from their RRSP to purchase their first home without paying taxes. The withdrawn amount must be repaid over a period of 15 years. If repayments are not made as required, the outstanding amount will be included in income. Jonah has sufficient funds in an RRSP to make the maximum \$60,000 withdrawal under the HBP, so at the end of 10 years a total of \$134,000 would be available, tax-free, for a home purchase. If he waits the full 15 years, this total would grow to \$155,000.

If Valerie used the same strategy, they would have a grand total of \$310,000 to put towards a downpayment for a home purchase after 15 years.

How Jonah and Valerie can maximize their downpayment



¹In this scenario, Jonah and Valerie are taxed at a 25% marginal tax rate.

Giftng funds to family members

Even if you are a homeowner, you may have children or grandchildren considering buying a home in the future. You might consider gifting them the funds to contribute to an FHSA, assuming they are over the age of majority.

Assume Henry owns a home, as do his adult children. Henry, however, has four grandchildren currently attending university. All of his grandchildren are over the age of 18 and are Canadian residents. Henry could gift \$8,000 to each grandchild, annually, for up to five years for them to contribute to FHSAs.



If the grandchildren are in zero or very low tax brackets while they are attending university, they can retain those FHSA contributions to claim deductions in a later year when they're in a higher tax bracket.

How Henry can gift to his grandchildren today with the benefit of future tax savings



Helping the next generation of homeowners

Henry could gift \$8,000 annually for five years to each of his four grandchildren, for a total of \$40,000 per grandchild.



Tax deductions available in later years

Henry's grandchildren can claim deductions for the FHSA contributions after graduating from university, when they are likely to be in a higher tax bracket.

No home purchase

An FHSA can remain open for up to 15 years or until the end of the year when you turn 71 years old, whichever comes first. Any funds left in the FHSA that are not used to buy a qualifying home before closing the FHSA can be transferred on a tax-free basis to a Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF), or will be included in income.

Alvin is 55 years of age, and has never owned a home. As he thinks he may do so at some point in the next 15 years, he opens an FHSA and contributes \$8,000 a year for the next five years.



After 15 years, at 70 years of age, he decides not to buy a home and that he would prefer continuing to rent. Assuming a 5% rate of return, his FHSA has grown to \$76,000. Alvin is fully retired and has no RRSP contribution room available. Notwithstanding this, Alvin is able to transfer the full \$76,000 from his FHSA to his RRSP on a tax-deferred basis.

How Alvin can still benefit from an FHSA if he never buys a home



Let's discuss further about how you or your family may benefit from using a FHSA.

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