

Home Buyers' Plan (HBP)

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, 2019. Therefore, in order to qualify you could not have owned a home any time from January 1, 2015 until October 1, 2019. 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 (an "owner-occupied home") during the past four full calendar years. Specifically, the four-year period begins on January 1 of the fourth year before the year you withdraw funds from your RRSP, and ends 31 days before the date you withdraw the funds. Note that an owner-occupied home could be inside or outside Canada. Therefore, if you had an owner-occupied home in a foreign country during the aforementioned four-year period, you would not qualify as a first-time homebuyer.

In addition, Federal Budget 2019 expanded access to the HBP in situations where there has been a breakdown in a common-law partnership. Effective January 1, 2020, former spouses or common-law partners will be considered first-time homebuyers where they have been separated for at least 90 days and began living separately in the year they wish to make a HBP withdrawal (or in any of the four preceding years).

Individuals will not qualify under this expanded rule if they have begun living with a new spouse or common-law partner who owns the home they cohabit. They will also be required to sell their existing principal residence, if one is owned, no later than 2 years following the year in which the HBP withdrawal is made. However, that requirement will be waived in situations where individuals make a HBP withdrawal in order to buy out their former spouse or common-law partner's share of a house they co-own with that former spouse.

Example 2

You contributed \$15,000 to your RRSP on April 1, 2019. In June 2019, less than 90 days later, you withdrew \$35,000 under the HBP for a down payment on a new home. The fair market value of your RRSP at the time of withdrawal was \$37,000.

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 (\$37,000 - \$35,000):	\$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, 2019. In June 2019, less than 90 days later, you withdrew \$35,000 under the HBP for a down payment on a new home. The fair market value of your RRSP at the time of withdrawal was \$55,000.

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 (\$55,000 - \$35,000):	\$20,000
Amount that is not deductible in any year (if negative, enter 0):	0

Example 4 - Making the repayments

A \$36,000 redemption is made under the HBP, incurring \$1,000 in DSC fees. The HBP balance would be \$35,000, and the annual repayment schedule would be calculated by dividing \$35,000 over 15 years.

	Minimum	
Amount borrowed	Annual payment	Monthly payback
\$15,000.00	\$1,000	\$83.33
\$20,000.00	\$1,333.33	\$111.11
\$25,000.00	\$1,666.67	\$138.89
\$30,000.00	\$2,000.00	\$166.67
\$35,000.00	\$2,333.33	\$194.44

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.

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, Canadians have been allowed to participate in the HBP more than once. Any amounts received previously under the HBP must be 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 2019, you must act before October 1, 2020.

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

Effective March 20, 2019, each participant can borrow up to \$35,000 from his or her RRSP(s). The previous limit was \$25,000 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 \$35,000 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.

Example 5 - Income inclusion for non-repayment

Sophia made a \$24,000 HBP withdrawal in September 2019. Her first repayment of \$1,600 will be due in 2021. 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	Minimum	
	Amount required to be repaid in year	Amount Sophia repaid to RRSP (assumed)
2021	\$1,600 ¹	\$0
2022	1,600	800
2023	1,600	1,600
2024	1,600	1,000
2025	1,600	4,600
2026	1,300 ²	1,300
2027	1,300	1,300
2028	1,300	0
2029	1,300	1,300
2030	1,300	1,300
2031	1,300	1,300
2032	1,300	1,300
2033	1,300	1,300
2034	1,300	1,300
2035	1,300	1,300

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).

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 2019 and don't buy a home before October 1, 2020, you must repay the funds and cancel your participation by December 31, 2020. Any portion of your withdrawal not repaid by this date will have to be included in your income for 2019.

If you do not buy or build a qualifying home before October 1 of the year after the year of the HBP withdrawal, the deadline is considered to have been met if either of the following situations apply:

- A written agreement was in effect on October 1 of the year after the year of the withdrawal to buy a qualifying home or replacement property, and the property is bought before October 1 of the second year after the year of the withdrawal. In addition, Canadian residency is required up to the time of purchase.
- An amount was paid after the date of the first withdrawal and before October 1 of the year after the year of the withdrawal to the contractors or suppliers (who are dealt with at arm's length) for materials of the home being built, or toward its construction, that were at least equal to the total of all withdrawals under the HBP.

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. Therefore, 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.

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. The repayments are designated by the HBP participant on his or her income tax return each year, using Schedule 7. The participant may designate RRSP contributions made in the calendar year for which the designation is being made, as well as the contributions made within the first 60 days in the following year as HBP repayments. For example, to designate a repayment of \$15,000 for the 2019 tax year, an HBP participant may use contributions made during 2019 or in the first 60 days of 2020 on her 2019 income tax return.

If you start your repayment early, the repayment period will stay the same. Any payments made before you are required to start repayments will reduce the amount required for your first repayment. If your early repayment is more than the first year's required amount, your remaining HBP balance for later years will be reduced.

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 any 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 our 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 6 - Income inclusion due to emigration

Allan made a \$15,000 HBP withdrawal in 2011. His repayment period began in 2013, at which time he made a \$1,000 repayment. He made subsequent repayments of \$1,000 annually from 2014 to 2018. In 2019 he made a \$500 repayment in September. On November 15, he became a non-resident. He has until January 13, 2020 to repay the outstanding balance of \$8,500 ($\$15,000 - (\$1,000 \times 6) - \500). On January 10, before he filed his tax return for 2019, he made an additional repayment of \$1,000. As a result, Allan will have to include the remaining \$7,500 ($\$8,500 - \$1,000$) in his income for 2019, 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 2016 to buy a qualifying home. Their repayment periods began in 2018, at which time they each made a \$1,200 repayment. In 2019, before any repayments had been made, Mary died. Mary's income inclusion for 2019 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 ($(\$18,000 - \$1,200) \times 2$), 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, at the time of death, if your spouse or common-law partner 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 has his or her own outstanding HBP balance, then the balance of the deceased will be added and will have to be repaid based on the schedule of the surviving spouse or common-law partner. Otherwise, the repayment schedule will be the same as it was for the deceased. If a surviving spouse elects to add the deceased spouse's outstanding HBP balance to his or her own HBP balance, the new HBP balance of the surviving spouse may exceed \$35,000. There is no resulting adverse tax consequence to the surviving spouse due to the election.

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. Where TFSA funds are available, withdrawals from a TFSA or a combination of HBP withdrawal and TFSA funds may also be an alternative solution. 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 of your personal circumstances.

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

The information provided is general in nature and may not be relied upon nor considered to be the rendering of tax, legal, accounting or professional advice. Readers should consult with their own accountants, lawyers and/or other professionals for advice on their specific circumstances before taking any action. The information contained herein is from sources believed to be reliable, but accuracy cannot be guaranteed.

Commissions, trailing commissions, management fees and expenses may all be associated with mutual fund investments. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Please read the simplified prospectus before investing. Copies are available from your advisor or Invesco Canada Ltd.

Invesco is a registered business name of Invesco Canada Ltd.

* Invesco® and all associated trademarks are trademarks of Invesco Holding Company Limited, used under licence.
©Invesco Canada Ltd., 2020