Home buyers' plan

Under the Home Buyers' Plan (HBP), a first-time home buyer can withdraw funds from his or her RRSP to purchase a qualifying home. Since 1999, disabled persons and supporting persons can participate in the HBP without having to qualify as a first-time home buyer.

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

Both existing and newly built homes are eligible. A qualifying home can be a detached or semi-detached house, a town house, condominium or 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.

Historically, only first-time home buyers (see definition below) could participate in the HBP. Since 1999, 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 home buyer?

You are considered a first-time home buyer if you are a resident of Canada, and neither you owned a home as your principal place of residence during the period beginning four calendar years before the year of the withdrawal and ending 31 days prior to your withdrawal, nor your spouse or common-law partner owned a home during the same period (and you lived with your spouse or common-law partner during that period).

Can I participate in the HBP more than once?

Since 1999, an individual may participate in the HBP more than once. All amounts previously received under the HBP must have been repaid before the beginning of the year of re-participation. However, the participant must still qualify as a first-time home buyer, as described above.

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 2002, a qualifying home must be purchased or built before October 1, 2003.

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

You and your spouse or common-law partner can borrow up to $20,000 each from your RRSP(s) for the purpose of acquiring a qualifying home.

Spousal or common-law partner RRSPs

- If your spouse or common-law partner contributes to a spousal or common-law partner RRSP under which you are the annuitant, any withdrawal by you to buy or build a qualifying home will not be attributed back to your spouse or common-law partner
- If the money is not used to buy a qualifying 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 under which the participant is the annuitant (i.e. not a spousal or common-law partner RRSP)

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.

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 2002 and don't buy a home before October 1, 2003, you must repay the funds and cancel your participation by December 31, 2003.

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.

Example #1

The value of your RRSP on January 1 is $12,000. You contribute $10,000 to your RRSP on April 1, 2002.

In June 2002, less than 90 days later, you withdraw $20,000 under the HBP for a down payment on a new home. Is any amount of your $10,000 contribution non-deductible?

Total amounts contributed to your RRSP during 89-day period prior to your withdrawal under the HBP:	$10,000
Less the fair market value of your RRSP immediately after withdrawal ($12,000 + $10,000 - $20,000):	$2,000
Amount that is not deductible in any year (if negative, enter 0):	$8,000

To determine the amount of RRSP contributions that is not deductible, you must perform a simple calculation: 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, you must have had at least the amount of your withdrawal in your plan for 90 days to be able to get the deduction.

Example #2

The value of your RRSP on January 1 is $24,000. You contribute $10,000 to your RRSP on April 1, 2002.

In June 2002, less than 90 days later, you withdraw $20,000 under the HBP for a down payment on a new home. Is any amount of your $10,000 contribution non-deductible?

Total amounts contributed to your RRSP during 89-day period prior to your withdrawal under the HBP:	$10,000
Less the fair market value of your RRSP immediately after withdrawal $24,000 + $10,000 - $20,000):	$14,000
Amount that is not deductible in any year (if negative, enter 0):	0

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.

How do I repay my RRSP?

Under the HBP, you must repay yourself (through your RRSP) over a 15-year period, beginning the second calendar year after the 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 the Canada Customs and Revenue Agency or CCRA (formerly Revenue Canada) called “Statement of Account – Home Buyers’ Plan” that 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 the RRSP 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 has to be made to an RRSP of which you are the annuitant (i.e., not a spousal or common-law partner plan under which your spouse or common-law partner is the annuitant).

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.

Amount borrowed	Minimum annual payback	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

Since 1999, all participants in the HBP that have a balance due at the end of the year must file an income tax return even if no tax is payable.

What happens if I die before I have fully repaid my HBP?

Any unpaid HBP balance must be included in your income for the year of death (Line 129 of the Federal 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, on the same repayment schedule as your HBP.

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 CCRA 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:

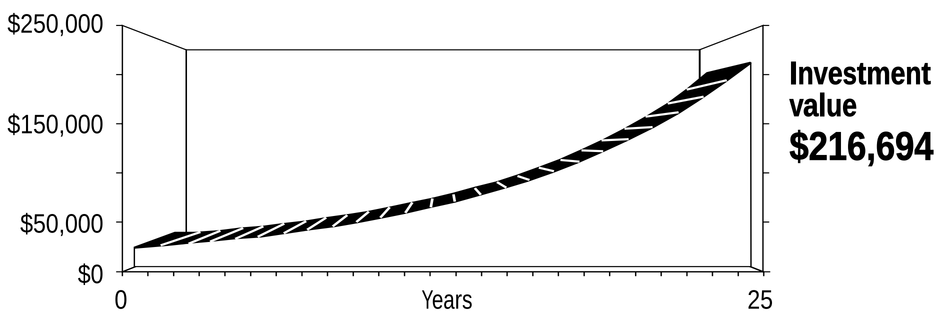
- A statement that an election is being made to have the surviving spouse or common-law partner continue making repayments under the HBP
- That due to the election, the income inclusion rule will not apply for you

Should you redeem your RRSP to buy a home?

Investor A

- Has a $20,000 RRSP that is left intact, i.e., there are no withdrawals or other contributions made
- Over a 25-year period, at a return of 10 per cent, the RRSP would grow to $216,694

RRSP – Leave $20,000 to grow for 25 years

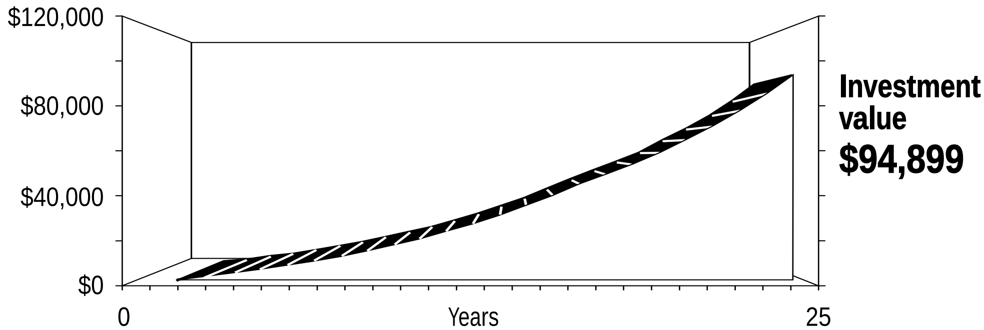


Investor B

- Redeems $20,000 from an RRSP to reduce a mortgage
- Must repay RRSP at $111.11 a month for 15 years, starting in the third year
- Makes no other RRSP contributions
- Over a period of 25 years, at a return of 10 per cent, the RRSP would grow to $94,899

Please note that this model does not take into account the tax consequences of the RRSP investments nor the returns associated with home ownership.

RRSP – Repay $111.11 per month for 15 years



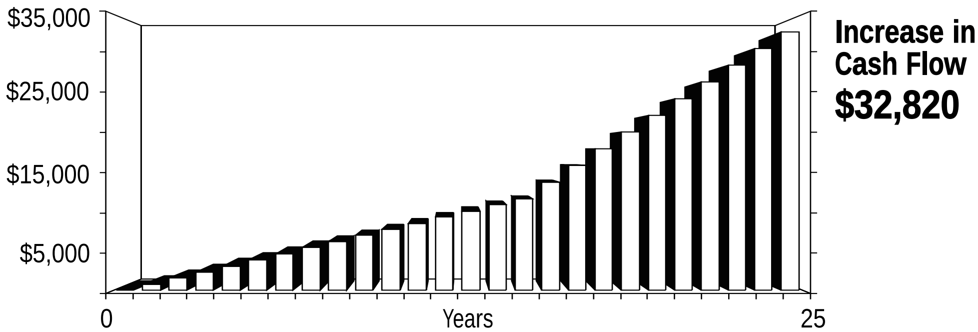
- Mortgage reduced by $20,000
- Monthly mortgage payments reduced by $176. For example, a $150,000 mortgage would be reduced to $130,000. Assuming a mortgage rate of 9.75 per cent over 25 years, the monthly mortgage payments would be reduced from $1,316.56 to $1,141.02
- But for 15 years, INVESTOR B makes a $111.11 monthly RRSP repayment so, during that period, his or her monthly cash flow increases by only $65
- The total increase in cash flow over 25 years amounts to:

  = [($65 x 12 months x 15 years) + ($176 x 12 months x 10 years)]

  = $11,700 + $21,120

  = $32,820

Increase in cash flow – $65 a month for 15 years and $176 for 10 years



Summary

INVESTOR A will have an RRSP worth $216,694 at the end of 25 years.
INVESTOR B will have an RRSP worth $94,899, plus increased cash flow of $32,820 during the 25-year period.

In the unlikely event that INVESTOR B contributes the amount saved on the mortgage (i.e., $65 for 15 years and $176 for 10 years) to his or her RRSP each month in an investment that earns 10 per cent compounded annually, the RRSP would be worth an additional $121,600, for a total of $216,499.

So, it's only by having the discipline and foresight to save the extra money each month, rather than spending it, that INVESTOR B has been able to catch up to INVESTOR A.

This information provides only an overview of the Home Buyers' Plan. Further information is contained in the CCRA's pamphlet on the Home Buyers' Plan, which is available from your local district office. The HBP rules are complicated and we recommend you consult a tax advisor.

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