

EXPLAINER

A tax-free savings account is coming for new home buyers. What you need to know

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Starting in 2023, first-time home buyers would be able to save up to \$40,000 in a new savings account - the Tax-Free First Home Savings Account.

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Finance Minister Chrystia Freeland's [2022 federal budget](#) unveiled \$10-billion in new spending aimed at tackling the challenge of [affordability for potential home buyers](#) with a suite of proposals. Along with money for new home construction, curbs on speculation and

foreign buyers, the Liberal budget also outlined the Tax-Free First Home Savings Account (FHSA), which aims to help would-be homeowners purchase their first home. Here's what is included in the new program.

What is the Tax-Free First Home Savings Account?

Starting in 2023, first-time home buyers would be able to save up to \$40,000 in a new account. As with a registered retirement savings plan (RRSP), contributions – in this case, up to a maximum of \$8,000 a year – would be tax-deductible. Unlike an RRSP, the annual contribution limit for the FHSA would not carry forward. You can hold multiple FHSAs, but combined contributions cannot exceed yearly or maximum limits.

As with a tax-free savings account (TFSA), withdrawals to purchase a new home would be tax-free. Investment growth inside the account would also be tax-free.

If the funds in the FHSA are not used within 15 years of first opening the account, the account will have to be closed and the unused savings must be shifted to an RRSP or RRIF, or withdrawn on a taxable basis.

Federal budget

THE HIGHLIGHTS: The 2022 federal budget outlines more than \$56-billion in new spending, and a "fiscally-responsible" plan to boost the economy, innovation, and make life more affordable. Plus, budget highlights in nine charts.

HOUSING: The Liberals plan to spend billions of dollars on new home construction, \$4-billion to improve housing in Indigenous communities, and help for first time homebuyers, including a new Tax-Free First Home Savings Account.

BUSINESS: Ottawa's two-part tax on Canadian banks and life insurers will bring in \$6.1-billion over the next five years; Small businesses will get a minor tax break in the federal budget, but no action on credit-card fees

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Why did the government introduce it?

A great deal of emphasis in the budget – and billions in new spending – is aimed at housing affordability. The typical home price in Canada has skyrocketed 51 per cent in just the past two years, fuelled partly by speculators and record-low mortgage rates that are now headed upward.

According to the Canadian Real Estate Association (CREA), the national home price index rose a record 3.5 per cent to \$868,400 in February. The Bank of Canada also raised its benchmark interest rate in March for the first time since 2018, affecting borrowing costs and impacting mortgages.

The budget places an emphasis on increasing Canada's housing supply. A January report from the Bank of Nova Scotia found that, among G7 countries, Canada had the lowest supply of homes relative to its population. Supply was particularly weak in Alberta, Manitoba and Ontario. To match G7 peers in per-capita housing supply, Scotiabank estimated Ontario would need an additional 1.2 million homes, underscoring the dearth of availability in major markets.

The Liberals first proposed this savings account as a 2021 federal election campaign promise to “allow Canadians under 40 to save up to \$40,000 towards their first home, and to withdraw it tax-free to put towards their first home purchase, with no requirement to repay it.”

“As home prices climb, so too does the cost of a down payment,” the government said in Thursday's budget. “This represents a major barrier for many looking to own a home – especially young people.”

Who is eligible?

When the Liberals proposed the savings account in last fall's election campaign, it came with an age limit of 40. The age restriction was removed in the budget.

How much can you put away each year?

You can put away up to \$8,000 per year in an account, with a lifetime contribution limit of \$40,000. Unused annual contribution space cannot be carried forward.

When will it be available?

The FHSA is expected to launch in 2023. The government says it will work with financial institutions to ensure accounts can be opened for contributions that year.

Can potential home buyers use money from both their RRSP and FHSA to buy a home?

The government says Canadians will still be allowed to borrow from their RRSP through Ottawa's Home Buyers' Plan (HBP) under its existing rules. However, they will not be allowed to make both an FHSA withdrawal and an HBP withdrawal to pay for the same house purchase. The HBP allows you to withdraw up to \$35,000 tax-free from an RRSP to buy a first home.

“Once the FHSA is introduced next year, it will make sense to use it first and then, once you contribute the maximum \$40,000, move on to a TFSA,” personal finance columnist Rob Carrick suggests.

How much will the program cost?

According to the budget, the government estimates the FHSA program would cost \$725-million in tax revenue over five years.

What else did Ottawa promise to do about housing affordability?

The budget promises \$10-billion to make housing more affordable, including money for new home construction and curbs on speculation and foreign buyers.

Ottawa would provide \$4-billion through the Canada Mortgage and Housing Corp. to build 100,000 new homes in the next five years. Another \$1.5-billion would serve to create 6,000 affordable housing units over the next two years.

With significant exceptions, the federal government is also proposing to tax gains on the sale of principal residences by homeowners who hold a property for less than 12 months, a key election platform promise meant to discourage house flipping.

The federal budget also doubles a refundable tax credit for Canadians who are taking home building into their own hands, raising the First-Time Home Buyers' Tax Credit to \$10,000 and proposes a two-year ban on residential real estate purchases by foreign buyers – all with the goal of making housing more affordable for Canadians.

With files from Matt Lundy, Jason Kirby, Erica Alini and The Canadian Press.

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