

Alberta Doctors' Digest

Sponsored article: First home savings account

Canadians will soon have a new savings tool at their disposal with the tax-free first home savings account (FHSA). Here's how physicians can tap into its benefits.

How the FHSA works

The FHSA combines the best features of a registered retirement savings plan (RRSP) and a tax-free savings account (TFSA). Canadians who are at least 18 years old and who qualify as first-time homebuyers can open an FHSA and contribute up to \$8,000 each year for a total of five years — giving them a lifetime maximum of \$40,000.

FHSA contributions will be tax-deductible, just like RRSP contributions. And, like a TFSA, you'll be able to withdraw funds tax-free — though, unlike a TFSA, only provided that the funds are used to purchase your first home.

Contributions can be invested, which means you'll be able to park your FHSA contributions in cash, GICs, stocks, bonds, mutual funds and exchange-traded funds (ETFs).



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How physicians can use the FHSA

Here are two case studies to show you how physicians can get the most out of the FHSA.

Case study 1: A young physician getting started in Calgary

Susan is a new family physician practicing in Calgary. Her husband Geoff is an account manager at a local marketing firm. Together they rent a two-bedroom apartment near Susan's clinic for \$2,500 per month.

Susan and Geoff (not their real names) are eager to buy a first home. Their MD Advisor* mentions the FHSA as a tool designed for first-home buyers to save a down payment. Together, they come up with a five-year plan to maximize their FHSA contributions, buy a home and stay in the area they love.

Both Susan and Geoff will open FHSAs and each contribute \$8,000 before the end of 2023 and receive tax deductions for those amounts. They'll invest the funds in a mix of GICs and short-term bonds, where they hope to achieve an annual return of around 4%.

Each year they'll contribute the \$8,000 maximum — reaching the maximum of \$40,000 in 2027. Assuming a 4% annual growth rate, they'll each have \$43,331 — \$86,662 in total — available tax-free to use toward a first home purchase.

They find a two-bedroom townhouse for sale at \$950,000. Susan and Geoff withdraw their FHSA funds, plus another \$23,338 in cash savings, to put down \$110,000 on the property and take out a mortgage of approximately \$866,040 after fees.

Their monthly mortgage payments are nearly double their previous rent payment. But with Susan now five years along in her practice and her student debt nearly behind her, as well as Geoff moving up to a senior account manager position, the couple feels more at ease that their mortgage payments won't impact their ability to live a good life and save for retirement.

Case study 2: Established physicians want to help son buy a first home

Vikram and Vinaya (not their real names) are practicing physicians in Edmonton. Their son Arjun is 20 years old and lives at home with his parents while attending the University of Alberta.

To help set their son up for success, Vikram and Vinaya committed early on to fully fund Arjun's post-secondary education and support him as he starts his career, hopefully as an engineer.

They ask their MD Advisor about ways to support Arjun's financial journey. They wonder if they should help fund Arjun's TFSA while he's in school and not earning an income. They also want to know the best way to help Arjun buy a home when he's ready.

Their MD Advisor suggests they ask Arjun to open an FHSA and then gift him \$8,000 to make a contribution. They'll continue to provide \$8,000 in financial support for the next four years for Arjun to max out his lifetime FHSA limit.

Their MD Advisor explained that while Arjun may not be ready to buy his first home at 24 or 25, the funds invested inside the FHSA can continue to grow tax-free for up to 15 years after opening the account.

So if Arjun waits until he's 30 to buy his first home, his FHSA portfolio will have had an additional five years to grow and compound tax-free. If we assume his \$40,000

contribution grows to \$43,331 by the end of five years (the end of the contribution period) and then grows by another 4% annually for five more years, Arjun will have a total of \$52,719 to withdraw and use toward his first home purchase.

Arjun, rather than his parents, gets the tax deductions for his FHSA contributions and can wait to use those deductions at a later date when he is in a higher tax bracket.

Watch for this new account to launch this spring. If you'd like to talk to an MD Advisor about adding the FHSA to your financial toolkit, contact us at VIP@md.ca.

**MD Advisor refers to an MD Management Limited Financial Consultant or Investment Advisor (in Quebec), or an MD Private Investment Counsel Portfolio Manager.*

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