

Alberta Doctors' Digest

First Home Savings Account (FHSA)

If you're in the market to buy your first home, the First Home Savings Account (FHSA) can help you get there – tax-free! Here's what you need to know about the account and how physicians can tap into its benefits.

What is the FHSA?

The FHSA is a savings account that combines the best features of a registered retirement savings plan (RRSP) with the best features of 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 in the first year.

After that, they'll get another \$8,000 in contribution room each year for a total of five years — giving them a lifetime maximum of \$40,000 in FHSA contribution room. Unused contribution room is automatically carried forward and can be used later.



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How the FHSA works

The FHSA works a bit like an RRSP and a bit like a TFSA. FHSA contributions are tax-deductible, just like RRSP contributions. And, like a TFSA, you can withdraw funds tax-free – though, unlike a TFSA, the funds must be used to purchase your first home.

Contributions can be invested in much the same way as they are in an RRSP or TFSA. That means you can park your FHSA contributions in cash, GICs, bonds, mutual funds and exchange-traded funds (ETFs). You will then be able to keep the FHSA open for up

to 15 years or until the end of the year that you turn 71, whichever is earlier. Funds held in your FHSA that aren't used to buy a first home will be transferrable tax-free into an RRSP or registered retirement income fund (RRIF), or you'll be able to withdraw them as taxable income.

How physicians can use the FHSA

While the FHSA offers an ideal way for young physicians to begin saving for a first home, it's also a way for physicians who are further along in their careers and already own a home to help their young adult children save for their first home.

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

Vikram and Vinaya Singh are practising physicians in Edmonton. Their son, Arjun, is 20 years old and lives at home with his parents while attending the University of Alberta.

One of Vikram and Vinaya's priorities is to help set Arjun up for success. That's why they committed early on to fully fund Arjun's post-secondary education and support him as he starts his career.

They reach out to their MD advisor to ask 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're also concerned about house prices in the Greater Edmonton area and 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 explains that while Arjun may not be ready to buy his first home at 24 or 25, the funds invested in 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 percent 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.

Final word

The FHSA is an excellent savings tool for physicians to use to buy a first home or to help adult children or grandchildren save for their first home.

If you'd like to chat to about adding the FHSA to your savings toolkit, contact Jenni.Richmond@md.ca.

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