First-time home buyer?

Unlock the Potential of the HBP!

Nine strategies to make the HBP work for you

LATEST EDITION

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The HBP can be used in many ways

When used properly, the HBP enables you to temporarily withdraw funds from your RRSP without paying income tax. You can then use the funds to:

- Increase your down payment and pay less mortgage interest and save money on mortgage insurance;
- Pay off debts;
- Contribute to your RRSP for tax refunds;
- Contribute to your spouse's RRSP;
- Contribute to a labour-sponsored RRSP fund for even larger tax refunds;
- Invest in your children's RESP;
- Invest in your TFSA; or
- Park them in your TFSA in order to pay back a portion of the HBP.

The money withdrawn under the HPB may be used in other ways but be careful: the goal isn't to spend the withdrawn funds on a more expensive home or consumer goods and services, which could negatively impact your finances.

This guide explains how the HBP works and describes and illustrates, in concrete terms, various strategies you can use to benefit from the HBP.

How does the HBP work?

Here is an overview of the Home Buyers' Plan (HBP).

The HBP allows you to temporarily withdraw up to $35,000 from your RRSP without paying income tax. If you're a couple, the spouses may withdraw up to $35,000 each from their respective RRSPs, for a total of $70,000.

However, you must pay the withdrawn amount back to your RRSP. To participate in the HBP, you need to have a written agreement to purchase or build a "qualifying home" that will become your principal residence. "Qualifying homes" include single-family homes, semi-detached homes, townhouses, mobile homes, condominium units and apartments in duplexes, triplexes or fourplexes, or apartment buildings.

The HBP in 3 steps[1]

1 Meet the conditions for participating in the HBP

You must meet certain conditions in order to participate in the HBP, including the three below:

You must be the buyer of a first home you intend to occupy

Under certain conditions, you may participate in the HBP even if you previously owned a home some years ago. If you've already participated in the HBP, you must have fully repaid the previously withdrawn funds by January 1 of the year in which you participate in it again. If you occupied a home that belonged to your spouse, you may not be eligible.

You must have entered into a written agreement to purchase or build a home

Neither you nor your spouse may acquire the home more than 30 days before making the HBP withdrawal.

You must have contributed to an RRSP at least 90 days before making the withdrawal

Also, if you plan to participate in the HBP, be sure that the funds contributed to your RRSP will be available to you. For example, if your RRSP contains only 5-year non-redeemable GICs, will your financial institution allow you to withdraw them under the HBP? If so, you may have to pay a penalty.

1. The steps described in this section are not exhaustive. If you are a person with a disability, several special rules, exceptions and steps specific to your situation apply. Please contact the Canada Revenue Agency for further details.

2

Withdraw funds under the HBP

You must complete form T1036, which is available on the Canada Revenue Agency website, and give it to the financial institution where your RRSP is held. You will then receive the requested amount without paying income tax.

3

Repay the HBP

Generally, you're required to repay at least 1⁄15 of the withdrawn amount each year. For example, if you withdraw $20,000, you'll have to put at least $1,333.33 back into your RRSP every year for 15 years.

Amount repayable each period according to HBP withdrawal amount

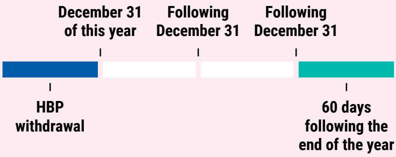
HBP withdrawal amount	Minimum HBP repayment depending on whether you make payments…		
	Annually	Monthly	Every 2 weeks
$10,000	$666.67	$55.56	$25.64
$15,000	$1,000.00	$83.33	$38.46
$20,000	$1,333.33	$111.11	$51.28
$25,000	$1,666.67	$138.89	$64.10
$35,000	$2,333.33	$194.44	$89.74

What is the advantage of repaying the HPB every two weeks instead of in a single payment at the end of the year?

The sooner you contribute, the sooner the funds accumulate in your RRSP. What's more, you may find it easier to come up with $51 every two weeks than $1,333 at the end of the year.

The first HBP repayment

You're not required to make your first repayment under the HBP in the year the funds are withdrawn. Instead, it can be made according to the following timeline:



For example, if you withdraw funds under the HBP on December 30, you'll have to make your first HBP repayment no more than 2 years and 61 days later. If you withdraw the funds on January 3, you'll have to make your first repayment no more than 3 years and 58 days later.

Repaying your HBP doesn't provide new tax refunds

When you contribute to your RRSP, you get tax refunds. If you withdraw funds from your RRSP under the HBP, you don't pay any income tax on the withdrawn amount. Consequently, if you pay your HBP back, you won't receive any new tax refunds for the repaid amounts.

What happens if you don't repay your HBP?

If the amounts due aren't paid back, they'll be considered permanently withdrawn from your RRSP. You'll therefore have to add them to your income and pay the applicable income tax. In addition, you will not longer be able to recontribute them to your RRSP and will therefore lose contribution room.

It isn't always advantageous to repay your HBP. Even if the amount you're required to pay back under the HBP is included in your taxable income, you may not have any tax to pay on that income if it is very low that year. Check your marginal effective tax rate (METR) carefully.

The METR is the percentage of income tax you pay on an additional dollar of income, taking into account the main government benefit programs such as the Canada Child Benefit and the GST credit. If your income increases, these benefits decrease. By contributing to an RRSP, you reduce the income used to calculate these benefits and, by so doing, could obtain more of them. Resources are available on the Internet to help you determine your METR. You can also consult a tax specialist.

9 Strategies

to take full advantage of the HBP

Before using the strategies described in the following pages...

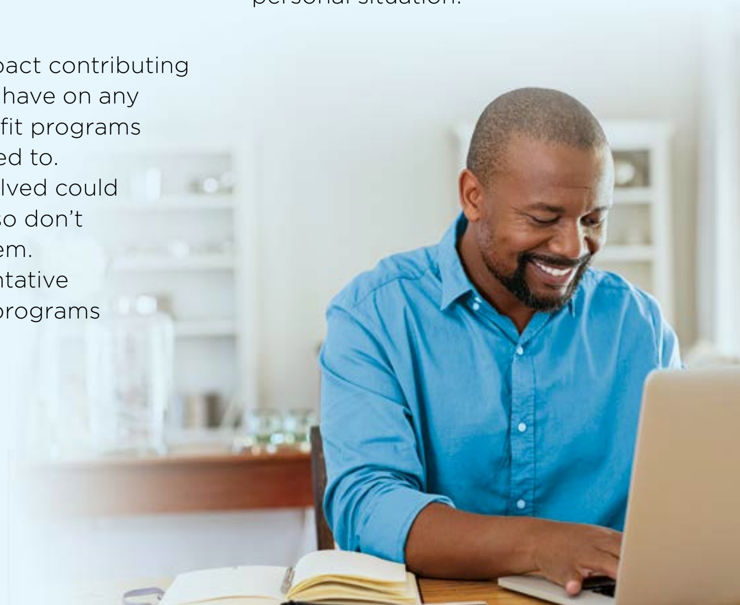
Check your RRSP and TFSA contribution rooms to see how much you can contribute.

Also check the tax benefits your could be get by contributing to your RRSP.

Find out what impact contributing to an RRSP could have on any government benefit programs you may be entitled to. The amounts involved could be considerable, so don't underestimate them. Ask your representative to go over these programs with you.

Find out about any fees that may apply if you withdraw your investments.

Refer to the assumptions used in the examples provided (page 10) and adapt the examples to your personal situation.



Assumptions

Unless otherwise indicated, we assume throughout the brochure that:

You're buying a home worth $250,000.

You're obtaining a 4% rate of return on your investments. You're borrowing at an interest rate of 4% per annum.

You have sufficient RRSP and TFSA contribution rooms to contribute the necessary amounts. For several strategies, you'll need substantial unused contribution room.

You're not using the HBP to buy a more expensive home than what you would have purchased had you not participated in the HBP.

You have the funds to pay the costs related to the purchase of a home, including notary fees, moving expenses, transfer duties (welcome tax), hook-up fees (electricity, telephone, etc.) and renovations.

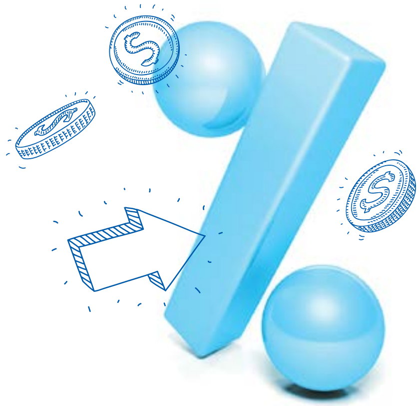
You will have the means to repay the HBP withdrawal amount and will actually pay it back.

You make your first HBP repayment two and a half years after making the HBP withdrawal. Unless otherwise indicated, results are compared 17 years after the HBP withdrawal, i.e., when you finish repaying the HBP.

Your marginal effective tax rate (METR) is steady at 40%. Your children's METR is 0% when the funds are withdrawn from the RRSP.

Strategy 1

Using the HBP to lower your mortgage



You have $12,500 to buy a home. You also have $35,000 in your RRSP. Withdrawing these funds under the HBP could pay off in a big way. Here's how.

1. Withdraw $35,000 from your RRSP under the HBP and add it to your down payment to significantly reduce the amount you borrow.
2. By borrowing the lower amount, you'll save $3,830 on the cost of mortgage insurance.
3. Your monthly mortgage payments will be $1,095, instead of $1,299, leaving you with enough money to pay back your HBP.
4. Any cash that's left over could be invested in your TFSA.

This simple strategy could generate more than $23,000[2] between now and when your mortgage is fully repaid in 25 years.

Mortgage insurance

If your down payment is less than 20% of the value of the property, you'll probably need to purchase mortgage insurance. Mortgage insurance protects the mortgage lender in the event you're no longer able to repay your loan. You'll never be able to personally file a claim under this insurance. Even when covered by this insurance, the lender could seize your home if you don't make your payments when they become due. Nonetheless, this insurance enables you to obtain a loan that might not have otherwise been available to you and can sometimes help you get a better interest rate on your loan.

2. More than $16,500 in today's dollars.

Strategy 2

Contributing funds to your RRSP in order to withdraw them under the HBP

You have $17,500 available to buy a home and sufficient unused RRSP contribution room. Here's how you can take advantage of this situation.

1. Deposit $17,500 in your RRSP, for $7,000 in tax benefits.
2. Wait at least 90 days after the deposit to make an HBP withdrawal of $17,500. Add this amount to your tax refund and you'll have a down payment of $24,500 instead of $17,500.
3. Borrow $225,500 instead of $232,500.[3]

You'll save close to $5,000 in interest and mortgage insurance costs[4] between now and the time the HBP is fully repaid.

Make sure, though, that you'll be able to repay the HBP—in this case, $1,166.67 a year for 15 years. See it as a way to discipline yourself to save towards financial independence.

3. Not including the addition of mortgage insurance to the mortgage amount.
4. Nearly $3,500 in today's dollars.

How will using the HBP impact your retirement?

You'll have more money available if you borrow under the HBP, but a portion of that additional amount comes from your mortgage balance decreasing more quickly. Therefore, the money isn't in your RRSP.
To compensate for this, you could continue to make the payments after your mortgage has been paid off, but invest the amounts in your RRSP or TFSA, instead. After all, you'll finish paying off your mortgage more quickly because of the HBP. The tax refunds you get by making RRSP contributions can also be added to your RRSP!

Save even more

In the above example, if you were you to find another $500, your mortgage insurance would cost $2,229 less. Since your loan would represent less than 90% of the value of the property, the cost of the insurance would decrease significantly. To increase your tax refund and get more cash, you could invest a portion of your RRSP in labour-sponsored fund shares (following box).

Save more with labour-sponsored funds

You can enhance the previous strategy by contributing $5,000 to a labour-sponsored RRSP fund such as the Fonds de solidarité FTQ or Fondaction. This would result in at least $1,500 in additional tax refunds. You could use this money to reduce the amount of your mortgage, thereby saving on mortgage insurance and interest payable. Before investing, check if this type of investment is suited to your investor profile.

When you contribute to these types of funds, you obtain a tax refund of at least 30% of the amount invested. When you pay back your HBP, you won’t obtain another credit, because the repayment isn’t a new contribution.

You will have to repay the HBP by redeeming the same labour-sponsored shares.

Strategy 3

Borrowing money from your financial institution in order to contribute more to your RRSP

You have $17,500 available to buy a home but no RRSP. You nonetheless want to withdraw the maximum amount permitted under the HBP, i.e., $35,000. You can! Here's how.

1. Shop around for the financial institution that offers the best terms, including the best interest rate for borrowing money and the best rate on deposits.
2. Borrow $17,500.
3. Contribute $35,000 to your RRSP and wait 90 days.
4. You'll get tax refunds and government benefits totalling $14,000 as a result of the RRSP contribution. Be careful! Putting a large amount in your RRSP in a single year could limit the tax benefits you receive to less than 40%! Be certain before using this strategy. Consult a tax specialist, if necessary.
5. Withdraw $35,000 from your RRSP under the HBP without paying income tax.
6. Repay your $17,500 loan and $175 in interest with this amount.
7. Pay back your HBP at a rate of $2,333.33 per year. Make sure you have the cash available to make this repayment; if you don't, this strategy may not be suitable for you.

With this strategy, you'll borrow $16,573 less to buy a home, including mortgage insurance savings and tax benefits.

You'll save more than $12,900,[5] after tax, between now and the time your HBP is completely repaid!

If you receive your tax refunds after 90 days, you will need to have enough money on hand to pay the interest on the loan. You'll have to be very disciplined to avoid using the HBP to acquire a home you can't afford or to buy more goods and services.

5. More than $9,200 in today's dollars.

Strategy 4

Contributing funds to your RRSP, withdrawing them under the HBP, then depositing them again in your RRSP in order to withdraw them a second time under the HBP

You have $17,500 available to buy a home. You want to withdraw the maximum amount under the HBP without borrowing any money. The following strategy can work if you have enough time before you need the funds to buy a home.

1. Contribute the $17,500 to your RRSP.
2. Wait a minimum of 90 days and withdraw the amount under the HBP.
3. You'll obtain $7,000 in tax benefits as a result of your RRSP contribution.
4. Recontribute the $17,500 withdrawn under the HBP to your RRSP.
5. Wait a minimum of 90 days and withdraw the amount under the HBP.
6. You'll receive another $7,000 in tax benefits for your RRSP contribution.
7. Pay back your HBP at a rate of $2,333.33 per year.

All told, you now have $31,500 in cash, instead of $17,500, as a result of the $14,000 in tax benefits you obtained. By using this amount to lower your mortgage, you will save more than $12,600,[6] after tax, between now and the time your HBP is completely repaid.

You could double the benefit of the strategies in the previous examples if you're in a couple and your spouse has the same cash resources and uses the same strategy.

6. More than $9,000 in today's dollars.

Strategy 5

Withdrawing funds currently available in your RRSP under the HBP, then depositing them in your spouse's RRSP

Let's assume you have $35,000 currently available in your RRSP, but your spouse doesn't have an RRSP. How can you help your spouse use the HBP to contribute toward the purchase of a home?

1. Withdraw the $35,000 under the HBP, then lend it to your spouse, who deposits it in his or her RRSP for 90 days.
2. Your spouse withdraws the amount under the HBP and pays you back.
3. Your spouse receives $14,000 in tax benefits as a result of the RRSP contribution.
4. Your spouse uses the $14,000 to reduce the amount of the mortgage loan.

Lending your spouse funds to make an HBP withdrawal will enable him or her to save more than $10,100, after tax, between now and the time the HBP is completely repaid.[7]

In the above example, if you or your spouse invests $1,000 more, you could make a down payment of 20% of the home purchase price and you would save on the price of mortgage insurance. The price of insurance decreases significantly when you put that much down. You wouldn't be required to purchase mortgage insurance and could save even more. But do your homework: some financial institutions offer a better interest rate if you take out mortgage insurance.

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7. Nearly $7,300 in today's dollars.

Strategy 6

Withdrawing funds under the HBP in order to contribute them to a TFSA

Your RRSP is worth $35,000 and yields attractive returns. You would therefore like to keep it. Did you know that the HBP may still be profitable? Just use this simple strategy.

1. Check what the fees would be for withdrawing the funds invested in your RRSP under the HBP. If they're negligible, you can use this strategy. If they're too high, the strategy may not be profitable for you.
2. Withdraw $35,000 from your RRSP under the HBP.
3. Invest the $35,000 in your TFSA, in investments similar to the ones you had in your RRSP.
4. Make the minimum HBP repayment every year using the funds in your TFSA.

After 17 years, **you will potentially have earned about $6,500[8]** more, after tax, using this strategy. Why? Because amounts withdrawn from your TFSA are tax-free whereas amounts withdrawn from your RRSP are added to your taxable income.

You can't hold labour-sponsored fund shares in your TFSA. You therefore can't use this strategy with this type of investment. Also, the maximum amount you can contribute to labour-sponsored funds in order to claim the tax credits for such funds is $5,000. However, you could use Strategy 7 to invest a portion of the RRSP in labour-sponsored fund shares.

8. Approximately $4,700 in today's dollars.

Strategy 7

Withdrawing funds under the HBP in order to contribute them to an RRSP

As in the previous example, your RRSP is worth $35,000 and yields attractive returns. You would therefore like to keep it. Did you know that the HBP could still be profitable? Here's a very simple strategy that doesn't involve finding additional cash to repay your HBP.

Assuming your effective marginal tax rate (EMTR) remains steady, the results obtained are the same, whether you invest in a TFSA or an RRSP.

1. Check what the fees are for withdrawing funds from your RRSP before using the HBP. If they're negligible, you can use this strategy. If they're too high, this strategy may not be profitable for you.
2. Withdraw $35,000 from your RRSP under the HBP.
3. Reinvest $16,000 in your RRSP.
4. You'll get $6,400 in tax benefits as a result of your RRSP contribution.
5. Invest $25,400 in your TFSA (the remaining $19,000 plus the $6,400 in tax benefits). The amounts indicated have been chosen to ensure you have enough money in your TFSA to repay your HBP.
6. Make the minimum HBP repayment every year.

As with the previous strategy, after 17 years, **you will potentially have earned about $6,500[9]** more after tax.

9. Approximately $4,700 in today's dollars.

Strategy 8

Contributing funds to your RRSP, withdrawing them under the HBP and paying off an expensive debt

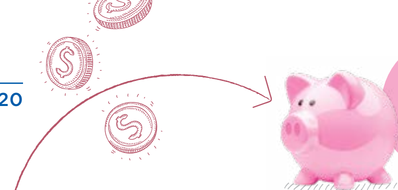
You have $12,500 available to buy a home, but you're carrying a debt of $5,000 on a credit card that charges you 19% interest annually. Here's a simple strategy to get rid of your debt effortlessly.

1. Contribute the $12,500 to your RRSP.
2. Wait a minimum of 90 days and withdraw the amount under the HBP.
3. You'll obtain $5,000 in tax benefits as a result of your RRSP contribution.
4. Repay your $5,000 debt. You'll save $950 in interest annually.
5. Repay $833.33 to the HBP every year from the money saved on interest.
6. Invest the surplus in your TFSA.

After 17 years, **you will potentially have saved close to $20,000[10]** more, tax-free, mainly as a result of the significant savings in interest.

The strategy will be effective only if you pay your credit card balance in full every month.

10. Approximately $14,200 in today's dollars.



Strategy 9

Contributing funds to your RRSP, withdrawing them under the HBP and contributing them to your children's RESP

You have $12,500 available to buy a home, but you're unable to put money away in RESPs for your two young children. Here's a simple strategy that will help you do this.

1. Contribute $12,500 to your RRSP.
2. Wait a minimum of 90 days and withdraw the amount under the HBP.
3. You'll obtain $5,000 in tax benefits as a result of your RRSP contribution.
4. Contribute $2,500 to an RESP for each of your children. Government grants representing at least 30% of the contributed amounts will be added to each child's RESP, i.e., $750 per child.
5. Pay back $833.33 to the HBP every year.

After 17 years, **you will potentially have accumulated close to $5,700**[11] more, tax-free. We are assuming that your children's income will be sufficiently low when they are students that they will be able to withdraw the RESP amounts without paying income tax and losing any tax benefits.

In this scenario, you will have $11,143 less in your RRSP ($16,715 instead of $27,858). However, your children's RESPs will be worth $12,415.

11. Approximately $4,000 in today's dollars.

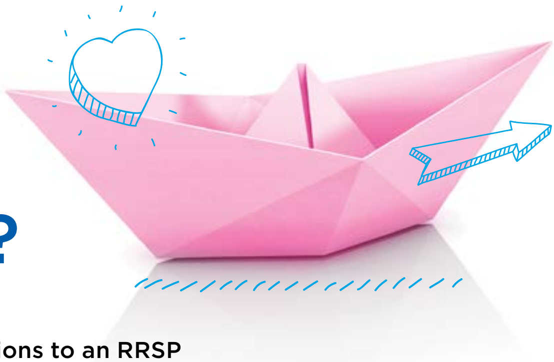
Pay back your HBP quickly or contribute to your RRSP?

After you've paid the minimum amount back to your HBP, it's generally preferable to use the extra money to contribute to your RRSP. When you make new contributions to your RRSP, you'll receive tax refunds.

You can also invest this amount in your TFSA. If you do, you won't get a tax refund; however, the amounts you earn won't be taxable when they're withdrawn.

Special situation: You suddenly have some cash available but don't have any more RRSP or TFSA contribution room.

In this particular case, it might be better to pay back your HBP more quickly so that your investments grow in a tax shelter for a longer period.



And in real life?

Making large contributions to an RRSP may limit the tax benefits you receive.
It's much easier to determine the tax benefits you'll get if you contribute just one dollar to your RRSP. What happens if you contribute $35,000 all at once?

It could result in lower tax benefits. On a positive note, **you aren't required to deduct the total amount contributed to your RRSP in the year of the contribution**. You can keep some for other years in order to get the most out of your contributions. Do your calculations or ask a tax specialist for help.

Changing interest rates

All our scenarios assume that your RRSP's rate of return is equal to the mortgage rate and that this rate remains unchanged over time.

If the mortgage rate is lower than your RRSP's rate of return, the advantage of the HBP is partly negated. But when this happens, it's important to remember you can use the funds withdrawn under the HBP as you see fit. For example, you could use them to pay off expensive debts or contribute to your RRSP or your children's RESP. To this extent, the HBP continues to be advantageous.

A changing marginal effective tax rate

All our scenarios also assume that the METR remains unchanged over time. Would the HBP be as advantageous if the METR changed over time?

The advantage of the HBP is also partly negated if the METR decreases when the funds are withdrawn from the RRSP, though the HBP may still be advantageous.

What if the METR remains unchanged, but at 50% instead of 40%, for instance?

You would save even more using the HBP if your METR were higher. However, if your METR is lower, the HBP yields fewer benefits, although it will generally remain advantageous.

Conclusion

A variety of advantageous strategies may be used with the HBP. Make sure you consider all relevant factors applicable to your situation, including tax consequences. For a professional analysis of **your** situation and personalized advice, contact a specialist.

Funds withdrawn under the HBP will no longer grow in your RRSP. As a result, there will be less money in your RRSP in retirement than if you had let the funds grow there. It takes a great deal of discipline to use the HBP properly. By withdrawing money under the HBP, you could borrow less and pay down your mortgage more quickly. After the mortgage has been repaid, the amounts that were being used to pay off the mortgage should be saved for retirement.

Autorité des marchés financiers

The Autorité des marchés financiers (AMF) is the body mandated by the Québec government to regulate Québec's financial sector and assist consumers of financial products and services. The AMF is an integrated regulator, ensuring oversight of the insurance, securities and derivatives sectors, the mortgage brokerage sector (as of May 1, 2020), deposit institutions (other than banks) and the distribution of financial products and services.

ÉducÉpargne

ÉducÉpargne, created in 2003 under the name Question Retraite, is a nonprofit organization bringing together about twenty partners from the governmental, financial, associative, and educational fields. ÉducÉpargne's mission is to raise Quebecers' awareness about the importance of creating and sustaining good saving habits, as well as to provide the tools to increase their significance, and to advise the savers in maximizing their utilization.

educepargne.ca

Did you know that you can use the funds withdrawn under the HBP as you see fit, provided the conditions for participating in the HBP are met? You could invest them or use them to pay off expensive debts. This guide offers up a range of attractive strategies to get the most of the HPB.

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