New Tax Planning Opportunities

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Canadians have various existing tax reduction opportunities to consider for their own personal situations and one NEW strategy arrives this spring: **First Home Savings Account (FHSA)**.

The FHSA has a few unique features versus the already existing Home Buyers Plan. To start, any Canadian over the age of 18 (who qualifies as a first-time home buyer) can make tax-deductible contributions up to the yearly maximum of $8,000 or the lifetime maximum of $40,000. All growth in the plan is **tax deferred** and withdrawals from the plan are **tax free** and *never need to be repaid if used to buy a home*.

Also, if an individual contributes to an FHSA but never purchases a home, they can roll the full value of their account into an RRSP - without using up or needing any extra contribution room. Or an individual could opt to cash their FHSA account out and just pay any required taxes.

The FHSA will be available this spring as soon as financial institutions can administratively offer this type of plan. The last key point to mention is that a FHSA plan can only remain open for a maximum of 15 years. For making a tax-free withdrawal, the definition of an “eligible home buyer” is someone who in the current year does not own a principal residence and did not own a home in the previous four years.

FHSA Provides Extra Tax Saving Opportunities for High-Income Canadians

The new FHSA also provides a unique tax savings strategy for high-income Canadians over age 55 who are close to retirement and have a fully funded RRSP but no additional contribution room. These individuals can contribute $8,000 per year to the FHSA and get the same tax benefit as if it was going into the RRSP - where they are contributing the maximum amount annually.

FHSA Can Be Combined With RRSP Home Buyer Plan

Also, in combination with the new FHSA, Canadians can still use the long-standing Home Buyer's Plan (repayable over 15 years) to withdraw funds from an RRSP for a new home purchase.

If you are married or living legally common-law, then both partners, providing each person meets the definition of a new home buyer (see above) can access funds from an FHSA and their RRSP (via the Home Buyer's Plan) for a potentially larger down payment amount of roughly $150,000 or so. This strategy could be extremely helpful to those Canadians looking to purchase a home in more expensive cities such as Toronto and Vancouver.

Watch FHSA Video[1] with CIBC consumer tax expert: Jamie Golombek

New Anti-Flipping Tax

On a related note, new anti-flipping tax rules came into effect on January 1st. We advise our clients to be very careful about buying, living in a home, and then selling it within a 12-month period as tax penalties will apply – subject to some exemptions.

Work from Home Expense Write Offs

Another tax planning opportunity includes the ability to write off "work-from-home" office expenses incurred while working at home during the Covid pandemic. The two methods are the quick method at $2 per day up to $500 annually or the detailed method.

Who pays taxes?

According to Golombek those earning $100,000 or more, on a personal basis represent 10% of taxpayers, earned 37% of all income and paid 57% of all taxes in the 2019 tax year. The Federal Government announced in the 2022 Budget a "new" minimum tax regime in addition to ensure that high income earners pay their fair share. Details will be released in the 2023 Budget.

High net worth and ultra-high net worth Canadians are left with limited tax shelters which include RRSPs, TFSAs, permanent cash value life insurance or moving their personal residence outside of Canada (not recommending or advocating this last point) according to Golombek.

Caution about TFSA Contributions

When determining TFSA contribution limits for the current year caution is advised as the limits are not updated in real time in the My CRA Account system. You always want to be sure that your TFSA contributions are not based on a previous tax year. The Courts ruled against a taxpayer since it is the responsibility of the taxpayer to know their own TFSA contribution limits and to comply with the applicable rules.

Small Business Tax Changes

Finally, small business corporations will see slightly reduced taxes on retained earnings which will vary by each province. The Federal Government has also changed the small business corporation deduction from $10 million to $50 million of capital. This means that some larger corporations will be eligible for the small business tax rate.

Contact our office

There are just some of the new tax planning opportunities. **Please call our office for an appointment** [1] should you wish to discuss how these and other tax issues may impact you personally.

[1] BNNBloomberg [2]

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