

YOU ASK, WE ANSWER

Strict rules for Home Buyers' Plan

PRINCIPAL RESIDENCE ONLY

BY GIGI SUHANIC

Question I am a first-time buyer and am looking to purchase a home/condo to live in, but I also want to purchase a second condo to rent out. Can I use my RRSPs to put the initial down payment on both and still have the 15-year grace period to replenish the account? Is it true that RRSPs can be used as a down payment for first-time buyers without tax deductions for 15 years?

Answer The Home Buyers' Plan allows first-time purchasers — individuals who have not lived in a home that was their principal residence for the last four full calendar years — to borrow up to \$20,000 tax-free each from their RRSPs.

There's one hitch, though. Home Buyers' Plan (HBP) rules are clear that RRSP funds can only be used for a principal residence. Purchases that will be used 100% for

rental don't qualify. "That's one of the fundamental tenets of the Home Buyers' Plan," says David Phipps, a Certified Financial Planner with Assante Capital Management Ltd. in Ottawa.

However, that doesn't mean you can't execute your plan. Mr. Phipps suggests you make as large a down payment as you can on the condo you will live in. Borrow the maximum from your RRSP and if you are married or live with someone, your partner can do likewise — for a total of up to \$40,000. Then, take out a larger mortgage and use part of that as a down payment on the rental property.

"There must be a creative way of using the mortgages to get it done. But all of the down payment from the Home Buyers' Plan has to be applied against the principal residence," Mr. Phipps says, adding perhaps your lender might have other suggestions for executing the financing.

Just as there are rules as to who qualifies for the HBP, similarly

there rules for the borrowed funds. You have 15 years to fully repay the borrowed RRSP, starting with 1/15th of the total, and repayment begins in the second calendar year after the year of withdrawal. You can repay any of the RRSPs to which you are the annuitant. There are no further tax deductions available on this money.

The Canada Revenue Agency will send you a Statement of Account — Home Buyers Plan — showing the minimum amount to be repaid. You can repay more than the CRA requires in one year but if you pay less than the minimum, the difference will be included in your taxable income.

When you make a repayment, make sure to earmark it on your tax return.

"If you're going to participate in the Home Buyers' Plan you have to be careful when you're filing your tax return to complete schedule 7 properly," Mr. Phipps cautions. On schedule 7 of your tax return, you note the total of your RRSP contribution and then indicate portion to be directed toward your HBP repayment.

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