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MORTGAGE CORNER

“The RRSP Home Buyers Plan”

You may have heard during the Budget Release earlier this year that the government is proposing to let First Time Homebuyers access more money from their RRSPs to provide the down payment for the purchase of a principal residence. The limit will be raised to \$25,000. and the amount must be repaid over a 15 year period if it is not to become taxable.

You may wonder if it is a good idea to “borrow” money from your RRSPs, or try to save it instead. There would be a number of different factors to consider, as each person’s situation is different. As well, you need to be considered a “First Time” buyer according to the definition set out within the Plan.

The first thing to consider is what type of investments you hold inside of your RRSP. If the value of your plan has dropped considerably in the past year, due to holding equities in your portfolio, it may be a little disheartening to take that money out now. If you know you’ll only need the money on a very short term, and will be able to repay it quickly before the markets start to rise again, it would make the option seem more viable.

If you hold Guaranteed Investment Certificates inside your RRSP, the certificates do not need to have matured in order to gain access to the funds under the RRSP Home Buyer’s Plan. Since the value of these type of “safe” investments don’t fluctuate, you may wish to access them first, if you have a choice.

The second thing to consider is that you’ll be buying a home and building equity in it, rather than paying rent each month. As long as your payment is similar to what you were paying in rent, and you feel comfortable with the payment, it usually makes financial sense to invest in a home.

The funds withdrawn under the RRSP Home Buyers Plan are not subject to withholding tax when they are withdrawn, like a regular RRSP withdrawal is. Also, the amount drawn out within the limits of the Plan is not included in your taxable income for that year. What happens if you miss a payment during the 15 years you have to repay? You would just need to include that portion of the payment in your taxable income for that year.

You can still continue to make regular contributions to your RRSP if you wish, even while you are participating in the Plan. You will need to indicate on your Income Tax what portion, if any, is designated as a regular RRSP contribution, and what portion is designated as a repayment to your Home Buyers Plan.

Speaking with a Mortgage Broker can help you determine if using the Home Buyers Plan would make sense in your situation.

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