Canada Revenue Agency: This Tax Break Will Benefit 1st-Time Home Buyers

Description

If you are yet to file your taxes, it makes sense to start preparing for the eventuality sooner rather than later. You need to do your part and file taxes that will help kickstart the Canadian economy, which has plunged into chaos. The Canada Revenue Agency (CRA) deferred the tax-filing deadline to June 1, 2020, instead of the regular April 30th deadline.

However, given the circumstances, the Canada Revenue Agency will not levy penalties for late tax filing if taxes are paid by September 1, 2020.

What is the CRA's Home Buyers Plan?

We'll look at one CRA tax break that can help eligible Canadians if they are first-time home buyers. The Home Buyer's Plan (HBP) is a program that allows individuals to withdraw funds from the Registered Retirement Savings Plan (RRSP) to buy or build a qualifying home. You can buy a home for yourself or for a related person with a disability.

The tax-free RRSP withdrawal limit under the HBP currently stands at $35,000 for withdrawals made after March 19, 2019. The HBP allows individuals to pay back the withdrawn funds within a 15-year period.

According to the Canada Revenue Agency, "Your repayment period starts the second year after the year when you first withdrew funds from your RRSP(s) for the HBP. For example, if you withdrew funds in 2019, your first year of repayment will be 2021."

Invest in a residential REIT and become a landlord instead

The recent uptick in real estate prices has made buying a house a very expensive process. If you are just starting out and have minimal savings, you can invest them in residential REITs such as **Northview Apartment REIT** (TSX:NVU.UN).

Buying a house requires a huge amount of capital. Further, due to the relentless surge in Canada's housing prices over the last decade, coupled with rising unemployment rates due to the COVID-19 pandemic, there is a strong possibility that the country's housing market might crash. According to the Canadian Mortgage and Housing Corporation, home prices might fall between 9% and 18% in the next 12 months.

REITs provide investors with a diversified exposure with minimal investment. Northview shares are currently trading at $34.6 and have a forward yield of 4.7%. The REIT owns around 27,000 residential units spanning over one million square feet. It has properties in eight provinces and two territories.

Northview generates over 90% of sales from its residential segment which is generally much more stable as people will have to find a place to live. Northview pays a monthly distribution of $0.1358, and its FFO payout is less than 80%, which means its distribution is well covered. However, investors should also note that Northview has not increased payouts since 2015, and an increase in the near term is highly unlikely.

The Foolish takeaway

All investments carry a certain amount of risk. If you are buying a property, there is a chance for real estate prices to fall and wipe off a significant portion of your capital. You also need to contend with liquidity risks here.

Alternatively, while REITs are tax-advantaged structures, these investment vehicles are highly leveraged, which can haunt investors when markets collapse.

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