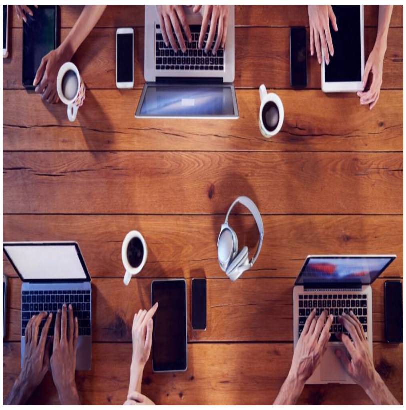

Millennials: Get $35,000 Tax-free To Buy a New Home!

Description

Are you a millennial looking to buy a home for the first time?

Then you'll be pleased to learn that you can get up to $35,000 tax-free toward your purchase. It's thanks to a generous government program that lets you avoid tax penalties. No, you can't just get a $35,000 cheque out of nowhere. But there's a way to cash out savings you'd normally have to pay massive taxes on–*without* a tax penalty. In this article, I'll be exploring how to do that.

It all starts with a little known CRA program that you really ought to familiarize yourself with.

The Home Buyers' Plan (HBP)

The HBP is a program that lets you withdraw up to $35,000 from your RRSP *tax free* to buy a home. Normally, RRSP withdrawals come with heavy taxes. Under the HBP, you don't have to pay those taxes. This can save you significant sums of money when it comes time to buy a home.

To be clear: you need to have cash in your RRSP for this to work. It's not just money given to you out of thin air by the government. However, the lack of a tax penalty could result in a significant "gift" that you otherwise wouldn't get.

How much you could save

The tax savings you could realize from the Home Buyers' Plan are enormous.

RRSP withdrawals have withholding tax taken out at source. For a $35,000 withdrawal, the tax is 30%, or $10,500. If your marginal tax rate is higher than 30%, you'll need to pay extra taxes on top of that. For example, if you had a 40% marginal tax rate, you'd need to pay an extra $3,500 on top of the withholding tax, to get you up to your full tax rate.

The HBP spares you all of these costs. So we're talking potentially over $10,000 in extra money you wouldn't be able to access otherwise. That could go a long way toward helping you pay for your home.

One thing to keep in mind

While $35,000 from your RRSP can go a long way toward paying for your home, you need to keep one thing in mind:

That's money you can't invest in stocks and bonds.

If your RRSP is fully invested, you'll have to sell out of a portion of your portfolio to make this happen.

Let's imagine that you held $35,000 worth of the **iShares S&P/TSX Capped Composite Index Fund** (TSX:XIC) in an RRSP. That's an index fund that offers about a 3% yield. If you realize a 5% capital gain plus a 3% yield on a $35,000 starting position in XIC, you have an 8% total return. That's about $2,800 a year in gains.

If you have to cash out your position to buy a home, you'll lose some of that gain. So depending on what kinds of investments you have and whether you really need a house, it may make more sense to keep the money in the RRSP.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:XIC (iShares Core S&P/TSX Capped Composite Index ETF)

PARTNER-FEEDS

1. Business Insider
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Category

1. Dividend Stocks
2. Investing

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