Buying a Home? You Could Get a $750 CRA Tax Credit

Description

Are you interested in buying a home? Many prospective homeowners in Canada have no idea about a tax credit that the Canada Revenue Agency (CRA) offers to first-time home buyers.

Known as the Home Buyers' Amount, the $5,000 tax credit can save you a significant amount when the next tax season arrives. It is one of the most substantial tax credits that Canadians can receive, but it is surprisingly not known well enough. Essentially any Canadian purchasing their first home can qualify for this.

It is unfortunate that buying a home in Canada is becoming increasingly unaffordable. While there is a constant risk of a housing market crash, home prices continue to increase. Tax credits like the Home Buyers' Amount are one of the few methods to counteract increasing home prices.

Today I will discuss how much you can save on your tax bill as a first-time home buyer and what you can do if you are not yet ready to buy a home.

Save $750 through the tax credit

The Home Buyers' Amount itself is $5,000 against the expense of buying a home. With home prices so high these days, almost any home you buy in Canada will cost enough to entitle you to receive the maximum amount.

Considering the current 15% standard rate, a $5,000 tax credit will provide you with a $750 discount in the next tax season after purchasing your home. However, Canadians falling under a lower tax bracket paying less than $750 in taxes will save less than the maximum tax credit.

Suppose your tax bill was $600 before the credit. In that case, you will save only $600. The Home Buyers' Amount credit is non-refundable. It means that you can't trigger a payout from the CRA through the tax credit. You will only receive a discount on your tax bill.

Issues with buying a home

This $750 tax credit is undoubtedly going to be helpful if you are buying a home for the first time. However, the savings will effectively be insignificant compared to the entire cost of purchasing a home. If you are ready and willing to pay a significant price for buying a home, you should certainly use the Home Buyers' Amount to your benefit. However, it is not as generous a tax break that it can make owning an unaffordable home affordable.

Alternative asset to consider if you're not ready to buy a home

If you are considering investing in real estate but do not want to deal with the massive upfront cost of buying a home, Real Estate Investment Trusts (REITs) like **Summit Industrial REIT** (TSX:SMU.UN) could be a better investment to consider.

REITs present a more liquid, affordable, and hassle-free way to invest in real estate. The housing market is always running a risk of declining prices. Several predictions indicate that we could see the much-awaited decline this year. However, investing in Summit Industrial REIT might be a safer way to invest in real estate because it belongs to an entirely different segment.

Summit invests in a portfolio of light industrial properties. The company has a growing portfolio of these properties throughout Canada. According to the company, light industrial real estate is one of the most profitable segments in the real estate sector. It requires lower expenses, making them an ideal real estate bet.

Foolish takeaway

It is good to know about the tax credit even if you are currently not ready to buy a home. Perhaps it can come in handy in the future. If you want to buy a home purely as an investment, I would recommend considering investing in a REIT that can provide you a more affordable security that provides consistent returns.

If you want to buy a home that you want to live in, you might want to consider waiting for housing prices to come down a notch before you spend all that money.

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1. TSX:SMU.UN (Summit Industrial Income REIT)

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