Millennials: How to Get Tax-Free Money to Buy a House

Description

If you're a millennial and you want tax-free income to buy a house, you may be in luck. Thanks to a federal government program, you can take up to $35,000 out of your RRSP with no tax penalty. Normally, RRSPs are taxed heavily on withdrawal, but there is one exception that lets you take out money tax-free. In this article, I'll explore that "exception" and how you can use it to buy a house.

The Home Buyer's Plan

The Home Buyer's Plan is a federal government program that lets you withdraw up to $35,000 tax-free from an RRSP to buy a home. After you withdraw the funds, you have to pay them back to the RRSP over 15 years. Not all RRSPs qualify for the program. For example, locked-in or "group" RRSPs may not allow you to withdraw funds at all. But as long as you have a self-directed or bank-run RRSP, you should be able to qualify for the tax-free withdrawal.

Do you qualify?

There are a few conditions you have to meet to qualify for the first time home buyer's plan:

- You must be a first-time buyer.
- You must have a written agreement to buy a home.
- You must be a Canadian resident.
- You must intend to *occupy* the property–i.e. not use it as an investment.

If you meet all these criteria then you're free to withdraw up to $35,000 tax-free from your RRSP. That could be a big step toward buying your first home. It certainly won't single-handedly get you to your goal though. The average Canadian home now costs over $700,000, so $35,000 only gets you to a 5% down payment. Unfortunately, for millennials, the raw cost of buying homes is often too much to bear–tax-free RRSP withdrawals or no.

Can’t afford a house? Here’s an alternative way to get exposure to real estate

If you can’t afford to buy a house but still want some real estate exposure in your portfolio, you might want to consider investing in real estate investment trusts (REITs).

REITs like **Killam Apartment REIT** (TSX:KMP.UN) trade on the stock exchanges and can be bought for as little as $10, $15, or $20 per unit. This makes them easy to get started with compared to direct homeownership. And they can be pretty lucrative investments, too. Killam Apartment REIT is up 20% over the last 52 weeks and has a 3.3% dividend to boot.

You can get even higher yields than that with other niche REITs. **NorthWest Healthcare Properties REIT** (TSX:NWH.UN), for example, yields 6.3%. REITs are famous for paying out a high percentage of their earnings as dividends–they’re *legally required* to do so. So the income potential of these investments is very high.

With a $100,000 portfolio invested in KMP and NWH, you’d get about $4,800 in dividend income each year. That’s not a bad little income supplement and could provide some cash flow you could use to make a down payment on a home later. Buying such REITs is definitely a real estate play worth considering for those who can’t afford homes just yet.

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TICKERS GLOBAL

1. TSX:KMP.UN (Killam Apartment REIT)
2. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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