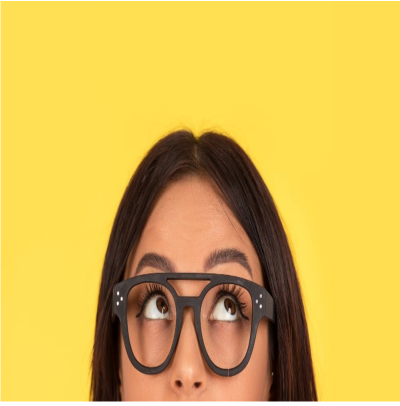

Will the New TFSA Help You Afford a Home? The Jury Is Out

Description

Last year, Justin Trudeau announced the “First-Home Savings Account” (FHSA) as a campaign promise in the 2021 Federal election. He pitched the account as a new vehicle that would blend aspects of the RRSP and TFSA — but only for Canadians saving for a home. The account, he said, would offer tax breaks upon contributing to it as well as tax-free withdrawals. These features would give the FHSA more tax benefits than any savings account currently available in Canada.

Today, the FHSA is in the process of being rolled out, and we have a good number of details about how it will work. The maximum lifetime contribution will be $40,000, of which $8,000 can be deposited in a single year. This gives the FHSA *less* cumulative room than an RRSP or TFSA but with a *bigger* net impact on taxes.

Today, experts are busy debating whether the FHSA will truly help Canadians who are saving to buy homes. On the one hand, the account does have some incredible tax benefits. On the other hand, the space is quite limited, and it will take five years to reach the full $40,000 in contribution room. In this article, I will explore the features of the FHSA and attempt to answer the question of whether it will help Canadians save for their first homes.

Space limited

One downside of the FHSA is that the space is quite limited. The $40,000 total lifetime contribution room is less than the TFSA’s $81,500 and less than the RRSP’s income-dependent amount. Additionally, you’re only allowed to put in $8,000 per year, so it will take a good, long time to even reach the full $40,000.

So, the FHSA isn’t going to give you an enormous down payment overnight. It should be mentioned, though, that between the FHSA and the First-Time-Homebuyer plan, Canadians will have $70,000 in total tax-free savings space for their down payment. The two programs combined could make a big difference.

May boost demand

Another potential pitfall of the FHSA is that it could boost demand for housing. Many Canadians these days are desperate to buy homes, and the FHSA's enormous tax benefits will make it easier to accumulate cash for a future buy. From the perspective of any one individual in isolation, the account would seem to be a positive. However, the situation isn't so simple when we consider Canada's entire population. If millions of Canadians all start shoving money into FHSAs at once, then they will eventually create a surge in demand when they cash the money out to buy. That could drive prices higher.

Foolish takeaway

The FHSA is a unique savings account that gives Canadians a very tax efficient way to save for a home. It remains to be seen whether it will help with our overheated housing market, but perhaps it will help some individual Canadians in their quest to buy.

As a side note, the FHSA could be a big positive for Canadian banks.

Banks like **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) will be responsible for administering Canadians' FHSAs. They will collect interest on cash deposits and fees on any investments held within the account. CM, as Canada's most domestic-oriented big bank, will have the most exposure to this new savings account and the investments held within it. So, it may benefit from the Canadian government's generous new real estate savings vehicle.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. andrewbutton

2. kduncombe

Category

1. Investing

Date
2025/07/22
Date Created
2022/04/25
Author
andrewbutton