Use of RRSPs plays key part

Revamped programs bring home ownership within reach – especially for first-time buyers

Saving for a first home is never easy. If you're in the market to buy, you know that accumulating a down payment requires a great deal of diligence, patience and planning.

If you know you can handle mortgage payments with ease— but the down payment is the only thing that's holding you back, you may want to take advantage of the recently extended RRSP Home Buyers' Plan. Revamped for first-time buyers only, the federal plan lets individuals withdraw up to $20,000 of their RRSPs, tax free, to use towards the down payment.

Or if you're in no rush to buy, you may want to take advantage of the Ontario Home Ownership Savings Plan (OHOSP). This provincial plan was also recently extended and revamped, allowing first-time buyers to tuck away savings towards the down payment on a home, while receiving annual tax credits of up to $500 per individual and $1000 per couple. Details of both of these incentive programs are outlined below.

RRSP Home Buyers' Plan

The new, modified RRSP Home Buyers' Plan allows you to withdraw up to $20,000 from your RRSPs ($40,000 per couple) to purchase or build a home. No income tax is deducted from these funds, as long as they're repaid to an RRSP according to the government's repayment schedule.

The program has helped thousands of Canadians attain the dream of home ownership— many who would not have been able to make a purchase without it.

OHOSP was recently extended and revamped, allowing first-time buyers to tuck away savings towards the down payment on a home.

You can take advantage of the plan if neither you nor your spouse have owned a home and lived in it as your principal place of residence in any of the five calendar years before the time of withdrawal. However, keep in mind that you can only participate in the plan once.

Once you enter into an agreement to buy or build a qualifying home, you may withdraw funds from your RRSP, but you must acquire the home before October of the year following the year in which you made the withdrawal. For example, if you withdrew funds in 1994, you would have to complete your purchase before October 1995.

How it Works

Once you enter an agreement to buy or build a home, you'll have to complete a special form (T1036) which is available at Revenue Canada district offices. This form should then be submitted to the financial institution which holds your RRSP.

Keep in mind that you can withdraw money from your RRSP tax-free if the money was deposited at least 90 days prior to withdrawal. The home you buy must be your principal place of residence within one year after buying or building it.

The home must also be acquired not more than 30 days before receiving the withdrawal under the RRSP Home Buyers' Plan.

Repayment Schedule

To retain the tax-deferred status, the money you withdraw must be repaid over a period of 15 years. You can opt to pay less than your scheduled annual payments, but the amount you don't repay must be reported as income on your tax return for that year.

The repayments have to be made before December 31 of each year— but the repayment period begins the second year following the year in which the withdrawal was made. So, if you took funds out to purchase a home in 1994, you would have to make your first payment by the end of 1996. (The repayments don't have to be made to the same RRSP you withdrew funds from.)

Also keep in mind that you don't get a second tax break when you make an annual payment, so you'll have to inform your RRSP issuer that your repayment isn't a regular RRSP contribution. RRSP repayment forms are available from any Revenue Canada district office.

OHOSP

The Ontario Home Ownership Savings Plan is another valuable tool in saving for a down payment. Since the plan was first introduced six years ago, some 350,000 plans have been opened and more than 200,000 people have used it to buy homes.

It was recently extended by the provincial government to run indefinitely. However, it was revamped so that only tax credits are allowed; there are no longer any exemptions to the Land Transfer Tax— unless you opened a plan by December 31, 1993.

Eligibility in OHOSP is determined by family income. You can participate as an individual if your annual net income is less than $40,000— or if you and your spouse have a combined net income of less than $80,000.

Although there's no limit to the amount you can contribute, your tax credit entitlement is based on contributions of not more than $2,000 per person or $4,000 per couple, per year.

Keep in mind that you have a limited time to take advantage of the program. Check with your financial institution for more details.

To invest in an OHOSP, simply complete an OHOSP application form at any participating financial institution and deposit funds into the plan. You can only open one OHOSP.

If you're interested in taking advantage of either one of these plans, a real estate professional can help you understand how they work and ensure that you maximize their benefits.

❑ *This article is provided by local realtors and the Ontario Real Estate Association (OREA) for the benefit of consumers in the real estate market.*