CASE IN POINT

Sales Tax Estate Planning Underwriting & Product Newsletter

Home Buyers Plan and death of a participant

The Home Buyers Plan allows first time home buyers to borrow from their Registered Retirement Savings Plan (RRSP) for a down payment on their home purchase tax-free.

They need to repay/replace the amount borrowed over 15 years. Repayments begin in the second year after the year of withdrawal. There is no interest charge.

The 2019 Federal Budget contained some sweeteners for first time home buyers. One item was a proposal to increase the current withdrawal cap per person from $25,000 to $35,000, effective Mar. 19, 2019[1]. Using your RRSP to help with a first time home purchase under the Home Buyers Plan seems attractive. What happens if a plan participant dies before the borrowed amount is fully repaid?

Eric and Karen decided to buy their first home, a townhome not far from public transportation. They didn't have enough money in their bank accounts and term deposits for a down payment. Both had opened Registered Retirement Savings Plans (RRSP) some years back and had been faithfully contributing to their respective plans. They each made a large withdrawal from their RRSP under the Home Buyers Plan. They were then able to put down sufficient money to qualify for a lower mortgage and now handle the regular mortgage payments as well as the repayments to their RRSPs. Eric was killed in a skiing accident several years later.

[1] Budget 2019 - An Affordable Place to Call Home
https://www.budget.gc.ca/2019/docs/themes/housing-logement-en.html

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Peter works with independent advisors and other professionals raising awareness on issues and concerns faced by affluent individuals, professionals and business owners. He supports efforts in researching and developing optimal solutions for clients aimed at improving their financial well-being and supporting their personal wishes and lifestyles. He annually provides 100's of workshops, seminars and technical support throughout the country on tax, retirement income and estate planning issues, concepts and strategies to both advisors and consumers. As an accredited Registered Financial Gerontologist, a good deal of his time is spent on building awareness and educating people of all professions who work with or specialize in the needs, expectations and issues of elders. Comprehensive lifestyle planning is an important element of these processes.

The Sales, Tax, Estate Planning, Underwriting & Product (STEPUP) team provides internal and broker support, including seminars, education, advanced concept illustrations & Client case technical consultations.

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The general rule is that the outstanding balance of Eric's RRSP withdrawal made under the Home Buyers Plan is added to his income in the year of his death. The balance owing is reduced by any RRSP contributions that Eric had made before he died that were designated as Home Buyers Plan repayments, not simply RRSP contributions.

Karen has an option. She can make a joint election with Eric's legal representative (executor or estate administrator) to take over Eric's repayments under the Home Buyers Plan. Karen and Eric's legal representative must attach a signed letter to Eric's final income tax return. The letter must state that an election is being made to have Karen continue making repayments under the Home Buyers Plan and not have the income inclusion rule apply for Eric.

Eric's balance owing at the time of his death is treated as if Karen had made the withdrawal. She makes the repayments to her RRSP.

There are several points to keep in mind.

- The income inclusion rule will not apply for Eric's final income tax return.
- Karen's repayment period for Eric's balance owing is now the same as her own remaining repayment period.
- If Eric had not made a Home Buyers Plan repayment for the year of his death and the election is made, then Eric's annual repayment for that year would not be required.
- The fact that the total Home Buyers Plan balance may now exceed the overall limit, does not matter in this instance.

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