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Using RRSP's as a Down-Payment

The Federal Government's First-Time Home Buyers' Plan (HBP) Revenue Canada will permit the use of RRSP funds for the purchase of a home by a first-time homebuyer (refer to Revenue Canada document P150 (E) for further details concerning the program).

Withdrawal of RRSP Funds for Down Payment:

- The current HBP permits the first-time homebuyer to withdraw up to \$25,000 tax-free from their RRSP to buy or build a home. The amount withdrawn is treated as a loan and must be repaid within a 15-year period, commencing in the third year after the withdrawal. If the annual payment is not made it is treated as taxable income for that year.
- This Program may be used with the CMHC's First-Home Buyer's Program (5% down payment program).

You should plan to pay back 1/15th of the funds drawn per year. If you repay less than 1/15th in one year, the difference from the amount paid and 1/15th of the amount will be calculated as income and taxed at your marginal tax rate.

The following is a sample repayment schedule of a mortgage with an RRSP down payment:

Purchase Price	\$175,000.00
Less: 5% RRSP Down Payment	\$8,750.00
Mortgage Amount	\$166,250.00
Add: Canada Mortgage and Housing Corporation (CMHC) 2.5% premium	\$4,156.25
Total Mortgage	\$170,406.25
Payments	
Monthly Mortgage Payment (at 5% fixed, 5 year term, 25 year amortization)	\$995
Add: Monthly RRSP Repayment OR (1/15 th of Annual RRSP Repayment of \$583.33)	\$48.61
Total Payments	1,043.61



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To qualify for the tax-free RRSP withdrawal:

- The buyer or one of the co-buyers cannot have owned, in whole or in part, his/her principal residence within the past five years,
- The new property must be located in Canada and be the buyer's principal residence,
- The buyer or co-buyer must be eligible as a First-Time Buyer (See CMHC rules).

When making a withdrawal from a RRSP:

- Each buyer may use up to \$25,000 from their RRSP for down payment,
- The buyer must complete a T1036 application, and take it to the institution that holds the buyer's RRSP.

The Legal Details of the Home Buyers' Plan

The Home Buyers' Plan (HBP) allows first-time home buyers to withdraw amounts from a Registered Retirement Savings Plan (RRSP) to purchase or build a home without having to pay tax on the withdrawal. Budget 2009 proposes to increase the HBP withdrawal limit to \$25,000 from \$20,000.

For HBP purposes, an individual is generally considered to be a first-time home buyer if neither the individual nor the individual's spouse or common-law partner owned and lived in another home in the calendar year in which the HBP withdrawal is made or in any of the four preceding calendar years. Special rules apply to facilitate the acquisition of a home that is more accessible or better suited for the personal needs and care of an individual who is eligible for the disability tax credit, even if the first-time home-buyer requirement is not met. These rules will also be modified to provide the same \$25,000 withdrawal limit.

Withdrawn funds must generally be used to acquire a home before October of the year following the year of withdrawal. Amounts withdrawn under the HBP are repayable in installments over a period not exceeding 15 years. To the extent that a scheduled repayment for a year is not made, it is added to the participant's income for the year. A special rule denies an RRSP deduction for contributions withdrawn under the HBP within 90 days of being contributed.

This increase in the HBP withdrawal limit will apply to the 2009 and subsequent calendar years in respect of withdrawals made after January 27, 2009

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