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In the previous edition of the Canadian Tax Planners Newsletter, we reviewed the implications of certain life events, such as income from a first job, attending post-secondary school, living together, getting married and having a child. We shall complete our review by outlining tax tips and traps related to the following:

- buying a home
- moving to a new city
- separation and divorce
- retirement
- becoming disabled
- death

Buying a Home

Home Buyers Tax Credit – Effective in 2009, a \$5,000 tax credit was introduced to assist new home buyers. The credit is calculated by multiplying the lowest personal income tax rate for the year by \$5,000. In 2009, the lowest tax rate is 15%; therefore the maximum credit is \$750. In order to qualify for the credit, neither the individual nor the individual's spouse or common-law partner may have owned and lived in another home in the year of purchase or any of the four preceding years. An exception to the new house rule relates to individuals with a disability. If the purchaser has a disability or is buying the home for someone with a disability, the individual does not have to be a first time home buyer. However, the home must be acquired to enable the person with a disability to live in a more accessible dwelling or in an environment better suited to the personal needs and care of that person. To meet the definition of disabled under this provision, the individual must be eligible for the disability tax credit. Either the individual, a spouse or common-law partner can claim or share the credit, but the total cannot exceed \$750.

RRSP Home Buyers Plan - The withdrawal limit under the Home Buyers Plan increases to \$25,000 from \$20,000 in respect of withdrawals made after January 27, 2009. To qualify for the program, the individual must have not owned a home in the past five years, which is similar to the Home Buyers Tax Credit.

In order to withdraw up to \$25,000 from a RRSP and not have the amounts included in income, one must enter into a written agreement to purchase a home before the funds can be released from the RRSP. The funds withdrawn from the RRSP must be repaid within 15 years and the minimum repayment is 1/15 of the amount borrowed. CRA will send an annual statement that outlines the amounts that have been repaid, the outstanding balance and the amount to be paid in the next calendar year. The following rules relate to repayments under the RRSP Home Buyers Plan:

- repayments must commence the second year following the year the withdrawal was made
- excess repayments reduce future payments, whereas any deficient payment must be brought into income
- immediate repayment may be required if the borrower becomes a non-resident, dies or reaches age 71 as funds cannot be added to a RRSP after December 31 of the year an individual turns 71
- individuals that declare bankruptcy must still make their RRSP repayments

Tax Planning Point – Many taxpayers that would like to utilize the Home Buyers Plan do not have \$25,000 in their RRSP, but they may have that amount of RRSP carryforward room. Consideration may be given to the following strategy:

- borrow from a financial institution the lesser of \$25,000 or the unused RRSP carryforward room
- contribute the borrowed funds to the RRSP. It is imperative this contribution is made more than 90 days before the RRSP amounts are withdrawn to finance the home purchase
- taxpayers in a 40% tax bracket that pursue this strategy will generate an \$10,000 tax reduction if they contribute the full \$25,000 to the RRSP

Note – The remainder of this article is only available to subscribers of the Canadian Tax Planners Newsletter. If you elect to subscribe and wish to receive a copy of this newsletter, advise us accordingly and the complete article will be forwarded by return mail.