

## Home Buyers' Plan

Under the Home Buyers' Plan (HBP), a first-time home buyer can withdraw funds from his or her RRSP to purchase a qualifying home. Disabled persons and supporting persons can participate in the HBP without having to qualify as a first-time home buyer.

### What is a qualifying home?

A qualifying home is a housing unit that:

- Is located in Canada
- Will be acquired or built before October 1 of the calendar year after the year of withdrawal, and
- Is intended to be occupied as the participants' principal place of residence no later than one year after it is acquired or built

Both existing and newly built homes are eligible. A qualifying home can be: a detached or semi-detached house, a town house, condominium or mobile home, an apartment in an apartment building, or a share in a co-operative housing corporation if you are buying an equity interest in a housing unit in Canada.

### Who qualifies as a first-time home buyer?

You are considered a first-time home buyer if you are a resident of Canada, and you have not occupied a home you (or your spouse or common-law partner) owned as a principal place of residence during the last four full calendar years. If you are divorced, you may be able to participate in the HBP if your name was not listed on the title of the home you lived in with your former spouse.

### Can I participate in the HBP more than once?

Since 1999, you have been allowed to participate in the HBP more than once. Any amounts you received previously under the HBP must have been repaid before the beginning of the year of re-participation. In addition, you must still qualify as a first-time home buyer, as described above.

#### Example 1: Qualifying periods

You make an HBP withdrawal on November 1, 2004. Therefore, in order to qualify you could not have owned a home anytime from January 1, 2000 until October 1, 2004. Disabled persons or individuals related to disabled persons who wish to buy either a more easily accessible home in which the disabled person would live, or to purchase a home that is better suited for the personal needs and care of the disabled person, are exempt from this requirement.

## How much time do I have to buy a home once I make an RRSP withdrawal?

You have until September 30 of the year following the year of withdrawal to buy or build a qualifying home. For example, if you make a withdrawal in March 2004, you must act before October 1, 2005.

## What is the maximum amount that I can withdraw from my RRSP?

You and your spouse or common-law partner can each borrow up to \$20,000 from your RRSP(s). As a participant in the HBP, you have to receive all withdrawals in the same year or by the end of January of the following year. Any withdrawal received after January will not be an eligible withdrawal under the HBP and you will have to include it in your income. Furthermore, the final withdrawal under the HBP must be made no later than 30 days after the closing date.

### Spousal or common-law partner RRSPs

- If your spouse or common-law partner contributes to a spousal RRSP under which you are the annuitant, any withdrawal by you to buy or build a home will not be attributed back to your spouse or common-law partner
- If the money is not used to buy a home, amounts not repaid to the RRSP must be reported as income of the individual who withdrew the money (i.e., the annuitant)
- When the participant repays the withdrawals from the RRSP, the repayments may be made to any RRSP under which the participant is the annuitant (i.e. repayments to a spousal or common-law partner RRSP in which your spouse or common-law partner is the annuitant are not permitted)

### Group RRSPs

If you contribute to an employer-sponsored group RRSP, you may be penalized for early withdrawals, depending on the terms and conditions of the plan. Ask your employer for more details.

### Example #2

You contributed \$10,000 to your RRSP on April 1, 2004. In June 2004, less than 90 days later, you withdrew \$20,000 under the HBP for a down payment on a new home. The fair market value of your RRSP at the time of withdrawal was \$22,000.

#### Is any amount of your \$10,000 contribution non-deductible?

Total amounts contributed to your RRSP during 89-day period prior to your withdrawal under the HBP:	<b>\$10,000</b>
Less the fair market value of your RRSP immediately after withdrawal (\$22,000 - \$20,000):	<b>\$2,000</b>
Amount that is not deductible in any year (if negative, enter 0):	<b>\$8,000</b>

## What if I make a withdrawal from my RRSP and fail to buy or build a qualifying home?

If you don't buy a qualifying home by the required date, you generally have until December 31 of the year you were supposed to purchase a home to return the funds to your RRSP and cancel your participation in the plan. If the funds are not returned, the withdrawal amount will become taxable in the year withdrawn.

If, for example, you withdraw in 2004 and don't buy a home before October 1, 2005, you must repay the funds and cancel your participation by December 31, 2005. Any portion of your withdrawal not repaid by this date will have to be included in your income for 2004.

## How do these withdrawals affect any new RRSP contributions?

To prevent people from simply contributing to an RRSP for the tax deduction and then cashing it out tax-free as a withdrawal under the HBP, the tax rules state that RRSP contributions withdrawn within 90 days are ineligible to be deducted from income in any year.

To determine the amount of RRSP contributions that are not deductible, you must perform a simple calculation (see Examples 2 and 3): Subtract the fair market value of the particular RRSP immediately after your withdrawal under the HBP from all amounts you contributed to that plan during the 89-day period prior to the withdrawal. In other words, for you to deduct your entire RRSP contributions made within the 89-day period just before your withdrawal, the value of your RRSP at the time of withdrawal, excluding the contributions made during this period, must exceed the amount you withdraw.

The HBP balance is based on the net amount received from the HBP withdrawal. If DSC fees were incurred only the net amount received would be considered your HBP withdrawal.

## How do I repay my RRSP?

Under the HBP, you must repay yourself (through your RRSP) over a 15-year period, beginning the second calendar year after the year of withdrawal. Every year you must pay back a portion of the amount borrowed from your

### Example #3

You contributed \$10,000 to your RRSP on April 1, 2004. In June 2004, less than 90 days later, you withdrew \$20,000 under the HBP for a down payment on a new home. The fair market value of your RRSP at the time of withdrawal was \$34,000.

#### Is any amount of your \$10,000 contribution non-deductible?

Total amounts contributed to your RRSP during 89-day period prior to your withdrawal under the HBP:	<b>\$10,000</b>
Less the fair market value of your RRSP immediately after withdrawal (\$34,000 - \$20,000):	<b>\$14,000</b>
Amount that is not deductible in any year (if negative, enter 0):	<b>0</b>

Note that these rules apply on a plan-by-plan basis – you must look at the fair market value of only the RRSP from which you withdrew under the HBP to determine if a contribution is deductible.

### Example #4: Making the repayments

A \$21,000 redemption is made under the HBP, incurring \$1,000 in DSC fees. The HBP balance would be \$20,000 and the annual repayment schedule would be calculated \$20,000/15 (years).

RRSP, starting with  $\frac{1}{15}$  of the outstanding balance in the first year. These payments are not considered RRSP contributions and are not tax-deductible.

In the fall, you will receive a statement from Canada Revenue Agency (CRA) called “Statement of account – Home Buyers’ Plan” that will tell you what you have repaid, the balance to be repaid and the minimum repayment for the next year.

Interest will not be charged and the withdrawal will not be taxed, provided the minimum payments are repaid to the RRSP over the applicable 15-year period. The money doesn’t have to be repaid to the same RRSP from which the withdrawal was made, but has to be made to an RRSP of which you are the annuitant (i.e., not a spousal or common-law partner plan under which your spouse or common-law partner is the annuitant).

Amount borrowed	Minimum annual payback	Monthly payback
\$5,000.00	\$333.33	\$27.78
\$10,000.00	\$666.67	\$55.56
\$15,000.00	\$1,000.00	\$83.33
\$20,000.00	\$1,333.33	\$111.11

Since 1999, all participants in the HBP that have a balance due at the end of the year must file an income tax return even if no tax is payable.

Depending on your financial situation, you may choose to pay more or less than these scheduled annual amounts. If you pay less, the amount you do not repay must be included as income on your tax return for that year. If you pay more, you will reduce your outstanding balance. This would result in lower annual repayments in subsequent years.

If the HBP participant becomes a non-resident, then the HBP balance must be repaid at the earlier of the tax return filing deadline or 60 days after becoming a non-resident.

Similarly, you must repay your entire HBP balance by the end of the year you reach age 69. If you do not do so, then you will have to include in your income, for each later year, the amount that would be your annual repayment as it becomes due.

If you should pass away before repaying your HBP balance in full, then any unpaid HBP balance must be included in your income for the year of death (Line 129 of the Federal Tax Return). However, if at the time of death you

had a spouse or common-law partner who is a Canadian resident, he or she can instead elect to continue the repayments to his or her own RRSP, on the same repayment schedule as your HBP.

If your spouse or common-law partner elects to make the repayments and you had not made a repayment during the year of death, the CRA will not require a repayment from you for that year. To make the election, the surviving spouse or common-law partner and your legal representative must jointly sign a letter and attach it to your tax return for the year of death. The letter must include:

- A statement that an election is being made to have the surviving spouse or common-law partner continue making repayments under the HBP
- That due to the election, the income inclusion rule will not apply for you

### Tax-efficient options

If you are looking for a tax-efficient way to purchase your first home, the HBP may be for you. Your advisor can help you decide the most suitable options for your particular circumstances.

The information provided is general in nature and is provided with the understanding that it may not be relied upon as, nor considered to be, the rendering of tax, legal, accounting or professional advice. Readers should consult with their own accountants and/or lawyers for advice on the specific circumstances before taking any action.

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