THE GLOBE AND MAIL

Canada's investment industry pushes for more detail on planned tax-free savings accounts for first-time home buyers

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The investment industry is seeking more details from the Canada Revenue Agency and Finance on a proposed tax-free savings account for first-time home buyers that was introduced in the federal budget earlier this year.

Currently, the federal government has not yet published any draft legislation on the new account known as a tax-free first home savings account - or FHSA. But they are expected to become available to Canadians sometime in 2023 – leaving the investment community with a "pretty aggressive timeline" to develop a product they know very little about operationally, says Robert Offen, manager of specialized services with AGF Investments Inc.

Mr. Offen, who was speaking at an annual Investment Funds Institute of Canada (IFIC) conference in Toronto, says IFIC - which represents more than 150 asset management companies in the country - first met with the CRA and Finance immediately following the budget in April.

Following the meeting, the group - along with the Canadian Bankers Association, Canadian Life and Health Association Inc. and the Investment Industry Association of Canada, sent 11 pages of questions to the government asking for further clarification.

The questions sought to clarify the requirements surrounding eligibility, qualified withdrawals, plan termination, tax reporting and the filing process. It also requested information on the process around overcontribution, what happens in the event of a death of the holder and beneficiaries or if a holder becomes a non-resident as well as offered detailed questions regarding the day-to-day administration of this new plan.

Mr. Offen says draft legislation is expected to come out by the end of July – followed by a 60-day period for industry comment. A second draft legislation will be submitted around the end of October, meaning royal asset – or approval of the legislation - would most likely not occur until the end of December.

“If we are looking to launch in 2023, and do the first filing by 2024 – our timeline is pretty aggressive,” Mr. Offen, told an in-person and virtual audience on Monday.

When asked whether the group will meet again with Finance, Mr. Offen confirmed a second consultation will occur in the “second half of the year” when the group knows “a bit more” about the product they have to build.

As outlined in the budget, the FHSA would allow any Canadian 18 and older to save up to $40,000 - with an annual contribution limit of $8,000 - for a first home purchase. The new account is expected to combine the two major tax advantages of the registered retirement savings plan (RRSP) and the tax-free savings account (TFSA). Similar to a RRSP, deposits into the account would be tax deductible, while eligible withdrawals would be tax-free, like a TFSA. Any investment growth within the account would also be tax-free.

For investors - and potential homebuyers - the accounts will provide another savings tool to help combat a booming real estate market that has pushed out some first time buyers in certain regions.

But for the investment community – particular asset managers who will have to develop the product - the combination of TFSA and RRSP accounts add multiple layers of complexity to the process operationally, says Mr. Offen, and those need to be clarified before any financial company can begin their own plans to launch proprietary products.

During the panel, IFIC’s senior policy advisor for taxation Josée Baillargeon, said during the panel discussion both the CRA and Finance have been open to engaging with the investment community and the group of associations are “hopeful” the list of questions will ensure the next consultation will bring forth a lot more information.

“At the moment there is just very limited information ... only 621 words to be exact that was written in the tax measure to explain this,” said Ms. Baillargeon “There’s a lot of more unknown than known at this point.”

-With a file from Erica Alini

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