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# NetWorth

## The First Home Savings Account (FHSA)

**This new registered plan enables first-time home buyers to save up to $40,000 for their first home tax-free. Similar to an RRSP, contributions to an FHSA are tax-deductible and withdrawals to purchase a first home – including withdrawals from investment income – are non-taxable, similar to a TFSA.**

The FHSA was enacted into law late in 2022. Here are some helpful planning tips.

### Opening and closing accounts

To open an FHSA, you must be a Canadian resident, at least 18 years of age, and a first-time home buyer who has not lived in a home owned solely or jointly by you or your spouse or common-law partner at any time in the calendar year before the account was opened, or in the preceding four calendar years. An FHSA matures and must be closed on the fifteenth anniversary of its opening, or by the end of the year you turn 71, or the year following your first qualifying withdrawal from your FHSA. The proceeds must be used to make a qualifying purchase, transferred tax-free to an RRSP or RRIF, or withdrawn on a taxable basis.

### Qualified investments

Similar to RRSPs and TFSAs, investments eligible for an FHSA can include: mutual funds, publicly traded securities, government and corporate bonds, ETFs, HISAs, and guaranteed investment certificates (GICs); however, there may be restrictions based on the FHSA plan provider. The prohibited investment rules and non-qualified investment rules applicable to other registered plans also apply to FHSAs.

### Eligible contributions

The lifetime contribution limit is $40,000 and the annual limit is $8,000. You can deduct contributions made in a particular taxation year; however, those made within the first 60 days cannot be attributed to the previous tax year. You can carry forward unused portions of your

### About BMO Private Wealth

Backed by the heritage, stability and resources of BMO Financial Group, BMO Nesbitt Burns, BMO Private Banking and BMO Trust have come together under the unified brand, BMO Private Wealth. Professionals from one of North America's leading full-service investment firms and Canada's best Private Bank* are partnered to help you navigate the complex process of managing your wealth. Our multi-disciplinary wealth management professionals take a proactive approach to helping individuals and families achieve their wealth goals. Services include wealth planning, investment management, banking, trust and estate, and philanthropy.

To learn more visit www.bmo.com/privatewealth annual contribution limit up to $8,000. However, amounts carried forward only start accumulating after you open an FHSA the first time. You can hold more than one FHSA, but the total contributed to all FHSAs cannot exceed your annual and lifetime limits. The Canada Revenue Agency (CRA) will help you determine how much you can contribute each year. Contributions following a qualifying withdrawal for a first home cannot be deducted for tax purposes.

## Undeducted contributions

You don't need to claim a deduction for the tax year in which a contribution is made. Contributions can be carried forward indefinitely and deducted in later tax years (e.g., when you're in a higher tax bracket).

## Taxation

Any income, losses and gains from investments held within an FHSA, as well as qualifying withdrawals, cannot be included in, nor deducted from, your income for tax purposes or used to determine eligibility for benefits or credits such as the Canada Child Benefit and the Goods and Services Tax Credit.

## Qualifying withdrawals

For an FHSA withdrawal to qualify as non-taxable:

1. You must be a first-time home buyer when withdrawing: you cannot have lived in a home that you, a "first-time home buyer" for the purpose of making a qualifying withdrawal is different than a "first-time home buyer" for the purpose of opening an FHSA, solely or jointly owned at any time during the calendar year before the withdrawal was made, nor the preceding four calendar years. You can make qualifying withdrawals within 30 days of moving into your first home.

2. You must have a written agreement to buy or build a qualifying home before October 1 of the year following the year of withdrawal and make that home your principal residence within one year after buying or building it.

3. A qualifying home is a housing unit in Canada or a share in a co-operative housing corporation that entitles you to hold an equity interest in a housing unit in Canada. A share that only provides a right to tenancy would not qualify.

4. You must be a resident of Canada from the time that you make your first qualifying withdrawal from one of your FHSAs until the earlier of the acquisition of the qualifying home, or the date of your death.

If you meet the qualifying withdrawal conditions, all available FHSA funds may be withdrawn tax-free in a single withdrawal or series.

## Non-qualifying withdrawals

These are included in your income for tax purposes. Financial institutions must collect and remit withholding tax on them. These withdrawals do not re-instate your annual contribution nor your lifetime contribution limit.

## Transfers

You may transfer funds from an FHSA to another FHSA, an RRSP or a RRIF tax-free. Funds transferred to an RRSP or RRIF follow the rules for these accounts, including taxable withdrawals. These transfers would not reduce nor be limited by your RRSP contribution room, nor reinstate your FHSA lifetime contribution limit. You can transfer funds from an RRSP to an FHSA tax-free, subject to contribution limits and qualified investment rules, but you cannot deduct transfers from income and they do not reinstate RRSP contribution room.

## Interaction with the Home Buyers' Plan (HBP)

The HBP continues to be available under existing rules. You can make both an FHSA and an HBP withdrawal for the same qualifying home purchase.

## Spousal contributions

The FHSA holder is the only person permitted to claim deductions for contributions made. You cannot contribute to your spouse's or common-law partner's FHSA and claim a deduction. An account holdler can contribute to their FHSA using funds gifted from a spouse or parent. No attribution of income earned within an FHSA will arise if a parent gifts funds to an adult child for their FHSA.

## Marital breakdowns

When a marriage or a common-law partnership ends, funds may be transferred from one party's FHSA to an FHSA, RRSP, or RRIF of the other party. Transfers will not re-instate the transferor's contribution room nor use the transferee's contribution room.

## Over-contributions

Like TFSAs, a 1% tax on over-contributions to an FHSA applies for each month (or part of a month) to the highest amount of excess in that month. When your annual contribution limit is reset at the start of each calendar year, over-contributions from a previous year may cease to be over-contributions. You can deduct an over-contributed amount for a given year in the tax year in which it ceases to be an over-contribution, but not earlier. However if a qualifying withdrawal is made before an over-contribution ceases to be an over-contribution, no deduction can be claimed for the over-contribution.

## Treatment upon death

Like TFSAs, you can designate your spouse or common-law partner as successor account holder to keep the account tax-exempt. Your surviving spouse owns the FHSA upon your death if eligible (see Opening and Closing Accounts). Inheriting an FHSA does not impact their contribution limits and their closure deadlines apply. If your spouse is not eligible, funds can be transferred to their RRSP or RRIF, or withdrawn on a taxable basis. If your FHSA beneficiary is not your spouse or common-law partner, the funds are withdrawn, paid to the beneficiary and included in their income for tax purposes, and subject to withholding tax.

## Non-residents

You can contribute to your FHSA after emigrating from Canada, but a non-resident cannot make a qualifying withdrawal.

To withdraw funds from an FHSA you must live in Canada from the time of withdrawal until the qualifying home is bought or built. Non-resident withdrawals are subject to withholding tax.

## Interest deductibility, Collateralization & Bankruptcy

Interest on money borrowed to invest in an FHSA is not deductible from income for tax purposes. You must include as income the full value of assets held within your FHSA and pledged as collateral for a loan. FHSAs are not afforded creditor protection under the Bankruptcy and Insolvency Act.

## Planning consideration

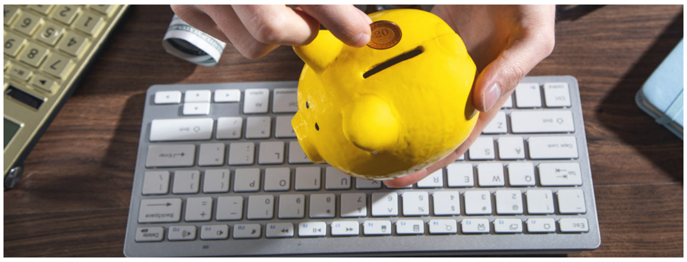
- FHSA carry-forward amounts only start accumulating after you open your first FHSA. If you open an FHSA earlier than you plan to contribute to access carry-forward amounts and achieve a higher contribution limit. An FHSA can only last up to 15 years, and only until age 71.
- If you're eligible to open an FHSA and will likely purchase a qualifying home within the 15-year timeframe or by age 71, but have limited funds, contribute now to your FHSA (instead of your RRSP). The investment growth within your FHSA can fund your home purchase.
- You can transfer your FHSA assets to your RRSP or RRIF tax-free, without impacting your RRSP contribution room, providing flexibility if you haven't used FHSA assets to purchase a home within its 15-year lifetime or by age 71, to boost your RRSP savings.
- If you're not eligible to open an FHSA but have an adult child 18 or older who is, and you'd like to help them purchase their first home, gift them funds to contribute to their FHSA.
- You're not required to claim a deduction for the tax year in which an FHSA contribution is made; you can defer until you're in a higher tax bracket for greater tax savings.
- You can only claim an income tax deduction for FHSA contributions made in a particular calendar year; so make them before December 31 each year. FHSA contributions made within the first 60 days of a calendar year cannot be attributed to the previous tax year.
- The investments eligible for an FHSA are similar to an RRSP or TFSA. Because of the FHSA's limited lifetime and specific purpose, your timeframe for purchasing a qualifying home may impact the investments you choose. Similar to an RESP, your asset allocation focus may shift from growth to preservation.

## Seek Advice

If you meet the requirements, you may benefit from the tax-free FHSA to save for your first house.

# How emotions hold us back from making money

Every investor has felt despair seeing their portfolio drop and elation seeing it jump. Too many have sold sell stocks that later rebound, overpay to buy too much of a winner, or hang on to losers longer than we should. Investors will bid more on new share offerings from companies on sunnier days. A country's poor World Cup performance can trigger market losses of almost 50 basis points. These examples demonstrate how greed, fear and excitement often dictate financial decisions, so it's important to understand how to keep our emotions in check.



"A good mood can increase optimism and risk taking and people tend to be more pessimistic when they're fearful," says Ing-Haw Cheng, Associate Professor of Finance at the Rotman School of Management at the University of Toronto, who researches how beliefs and incentives affect capital markets.

Here are Cheng's tips on how to prevent emotions from getting the best of your wallet:

## Don't let a big win drive future investments

Research shows that a big investment pay-off can make people overconfident. They invest too heavily in risky assets, thinking their luck will continue. Diversify your portfolio across sectors, asset class and geography to reduce risk.

## Work with a financial advisor

Make financial decisions without emotion and forecast how much return your investments need to generate and when you'll need that money. Weigh how an investment decision fits into your overall portfolio. A financial advisor can assess whether your investments are diversified enough and if your risk exposure aligns with your goals.

## Set up regular contributions

Most of us like spending today more than saving for tomorrow, so set up regular RRSP contributions as a mechanism for self-control so your emotional brain cannot earmark money for vacations or luxury goods.

## Question other people's feelings

Be sure professional advice isn't emotion-driven. Be wary of friends' or family members' investment tips – overconfidence may cloud their judgement.

## Check your emotions

Understanding your emotions will help you push them aside. For example, in real estate transactions, panic can make you exceed your home-buying budget: real estate isn't just an investment, it's where you live. Pause before making big decisions and let logic prevail.

# Investing in the Energy Transition

According to the UN Intergovernmental Panel on Climate Change (IPCC), global warming will push past the 1.5°C threshold between 2030 and 2035, so we need to reduce greenhouse gas emissions (GHGs) faster than planned.

This requires an estimated US$120 trillion investment throughout the clean energy value chain by 2050. While government and business are expected to contribute the bulk, investors also play a role by owning green investment funds and/or working with fund managers who can influence executives. Reportedly, the number of climate-related mutual funds and exchange-traded funds (ETFs) globally is rising – they topped 1,140 in September 2022. However, increased offerings brings new challenges. Investors must sort through all these choices to find vehicles aligned with their investment and personal goals.

**Matt Soegtrop, Director of Responsible Investing at BMO Private Wealth,** has tracked this sector's growth and offers guidelines for investors.

## 1. Get beyond buzzwords

Many fund managers now talk about integrating environmental, social and governance (ESG) factors into their funds. However, many ESG products actually overlap with ETFs from the S&P 500, NASDAQ, and S&P/TSX, so look deeper.

Seek out responsible investments targeting major shifts like renewable energy, electrification and energy storage that only invest in advanced net-zero names.

## 2. Diversity versus divestment

ESG considerations are rarely binary. For example, it's extremely difficult to categorize, the electric vehicle or fossil fuel sector as solely good or solely bad.

Hold high-quality names in a range of sectors to help those industries evolve rather than excluding entire market areas. While some products target specific themes, few limit themselves to a single energy transition segment, given the scope of the challenge. Good portfolio managers look at every avenue of the economy and think long-term to get maximum exposure to the transition.

## 3. Think policies, not just products

While the right portfolio mix is essential, examine a fund's engagement and active ownership policies. Leading asset managers have engagement policies defining how they work with management at companies within their portfolios. Companies will disclose metrics that track their impact, such as Sustainable Development Goals and carbon emissions, to help asset managers choose investments and engagement strategies. Look for memberships in organizations like the UN Principles for Responsible Investment (UNPRI) or the Net Zero Asset Managers Initiative. Know what asset managers care about and how they engage with companies.

## 4. Maximize your influence

Maximize your impact by pooling your money with others in a larger fund. Fund managers have more expertise in influencing the C-suite than a retail investor.

## 5. Look for the win-win

Responsible investing once meant sacrificing financial gains to honour your values, but not today. Empirical evidence shows that over the longer term, most leading responsible investing strategies have performed on par, or outperformed. So much investment is required in this space – if you don't have exposure, you might miss out.

## For more information, please speak with your BMO financial professional

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*Source: World Finance Magazine