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TL-012023

Josée Baillargeon
Senior Policy Advisor, Taxation
The Investment Funds Institute of Canada
333 Bay Street, Suite 2601
Toronto, Ontario, Canada M5H 2R2

Dear Mrs. Baillargeon:

Treatment of the Tax-Free First Home Savings Accounts under Parts XVIII and XIX of the Income Tax Act

I am writing in response to your email dated August 23rd, 2022, which was sent on behalf of the Investment Funds Institute of Canada, the Investment Industry Association of Canada, the Canadian Life and Health Insurance Association, the Canadian Bankers Association and the Canadian Credit Union Association (together, the "Group"). In your email, you enquired regarding the treatment of the tax-free first home savings account ("FHSA") under Parts XVIII and XIX of the *Income Tax Act*.

As you know, the rules in Part XVIII adopt by reference definitions and procedures described in the *Agreement between the Government of Canada and the Government of the United States of America to Improve International Tax Compliance through Enhanced Exchange of Information under the Convention between Canada and the United States of America with Respect to Taxes on Income and on Capital*. Part XIX provides the reporting and due diligence standards of the Common Reporting Standard ("CRS") developed by the Organisation for Economic Co-operation and Development that underpins the automatic exchange of financial account information. Both Parts XVIII and XIX implement rules that require financial institutions to follow due diligence procedures and to report certain financial account information to the Canada Revenue Agency ("CRA").

The rules in Parts XVIII and XIX recognize that certain types of financial institutions and financial accounts may present a lower risk for tax evasion and be exempted from the due diligence and reporting obligations that would otherwise be imposed. For example, these exemptions have been extended to cover several registered plans, such as registered retirement savings plans, registered retirement income funds, registered pension plans and tax-free savings accounts.

In Budget 2022, the Government proposed to introduce the FHSA that would give prospective first-time home buyers the ability to contribute up to $8,000 for each year the account is open, to a lifetime maximum of $40,000. The FHSA would operate like a registered retirement savings plan in that contributions would be tax-deductible, whereas qualifying withdrawals to purchase a first home — including investment income earned on the contributions — would be non-taxable like a tax-free savings account. The legislation implementing the FHSA was included in Bill C-32, which received royal assent on December 15, 2022, and will come into effect on April 1st, 2023.

We understand that members of the Group are preparing to offer the FHSA to their clients, and that this would require changes to their internal systems and procedures under tight time constraints and bearing significant costs in order to be ready for the first FHSA account openings. The extent of these changes would be impacted by the treatment of the FHSA under Parts XVIII and XIX. In this regard, we understand that the CRA has engaged with the Internal Revenue Service in the United States in relation to the possibility of exempting the FHSA from the due diligence and reporting obligations imposed under Part XVIII.

Our Comments
In consideration of the FHSA rules included in Bill C-32, we are of the view that the FHSA would present a minimal risk of being used by non-residents to hide assets and evade tax. The FHSA rules require an account holder to be a Canadian resident individual at the time that they open the account. As well, the annual and lifetime contribution limits associated with the FHSA serve to minimize the associated risks. We also recognize the similarities between the FHSA and other registered plans that have been afforded exemptions under Parts XVIII and XIX.

On this basis, we are prepared to recommend to the Minister of Finance that Part XIX be amended, as appropriate, to exempt the FHSA from the due diligence and reporting obligations imposed under those rules, effective April 1st, 2023.

While we cannot offer any assurances that our recommendation will be accepted, we hope that this statement of our intention is helpful.

Thank you for engaging with us on this matter.

Yours sincerely,

Shawn Porter

Shawn Porter
Associate Assistant Deputy Minister, Tax Legislation Tax Policy Branch

Cc: Ms. Tina Kremmidas, Investment Industry Association of Canada
Ms. Jennifer Omstead, Canadian Life and Health Insurance Association
Mr. Michael Hatch, Canadian Credit Union Association
Mr. Andrei Belik, Canadian Credit Union Association
Mr. Aaron Meyer, Canadian Bankers Association
Mr. Alex Ciappara, Canadian Bankers Association