

How does a missed HBP payment affect your bottom line?

If you miss one multiple times, it can get costly



by Janet Gray Aug 29, 2018

Q: I didn't repay one payment of my Home Buyers' Plan a couple of years ago and I realized that it would get added to my income, but does the payment still exist? In other words, there are 15 payments regardless of whether or not a payment was missed and income tax was paid on that 1/15th payment. I still ended up owing that payment in the end. Sounds a little fishy to me! Can you clarify?

—*Bill C.*

A: Bill, this is a common question around the often confusing repayment conditions of the Home Buyers' Plan (HBP).

Here is a simple explanation of how the repayment process works for the HBP. The repayment amount is divided over 15 years. And each year you choose whether to repay the annual amount to your RRSP or not. If you don't repay the expected amount, then the government will treat the amount as income for that year and tax you on it. The following year you make the decision again and the calendar continues to count down regardless of a repayment or not.

What this means is that you will end up taking a tax hit on the HBP payment amount you did not repay each year, depending on your tax bracket that year. And depending on the amount owed annually, and the tax bracket you're in that year, it can mean paying several hundred dollars more in taxes that year. So, it can get costly.

To find out your total outstanding HBP repayment balance at any time, check your Notice of Assessment from the Canada Revenue Agency (CRA). You will get this Assessment either through the mail or through your "My CRA" online account if you've set one up for yourself.

Janet Gray, Ottawa-based fee-for-service financial planner and money coach