

# GUIDELINES FOR FINANCING

## G.D.S. & T.D.S.

Each person wishing to take out a mortgage is only allowed to put 32% of their gross income towards their payment. This is referred to as your G.D.S. (gross debt service ratio), which includes principle, interest, 1/12<sup>th</sup> of the annual taxes, heating costs and ½ monthly maintenance fees (for strata properties).

A second qualification called T.D.S. (total debt service ratio) must be met. This is a maximum of 40% for the first time buyers, 42% for conventional mortgages and includes all your outstanding debt (mortgage, car, boat, loans, etc.).

## PROPERTY PURCHASE TAX

A tax paid at the time of purchase. The tax charge is 1% on the first \$200,000.00 of the purchase price and 2% on the balance. Some exemptions are made for first time buyers.

### ***FIRST TIME BUYER EXEMPTION ON PROPERTY PURCHASE TAX***

#### ***Do you qualify?***

- Must never have owned a principal residence anywhere
- Must have lived in B.C. for at least one year immediately prior to the purchase
  - Must reside in the home for one year following completion
  - Purchase price of the property must be less than \$325,000
- A property value of up to \$25,000.00 more than the threshold amounts will be eligible for a proportionate amount of the exemption.
  - Mortgage must have a term of at least one year
  - Mortgage must be at least 70% of the fair market value of the property
  - Mortgage money cannot include money borrowed from a related party
  - Only applies on residential property up to 1.24 acres

**If YES then you are *FULL EXEMPT* and *NO TAX IS PAID***

**If NO all is not lost, *PARTIAL EXEMPTIONS MAY APPLY***

***BEWARE* if for any reason whatsoever, the property is sold during the first year, or you no longer occupy the home, the full tax will immediately become due.**

## **5% DOWN-PAYMENT PROGRAM**

Originally only offered to qualified first time homebuyers, the 5% down program has expanded to also include anyone who has owned a home before. This program is designed to help get new purchasers into the real estate market and bring previous owners back. The Canadian Housing and Mortgage Corporations (CMHC) offers an option that allows purchasers to finance up to 95% of the purchase price. CMHC insures the mortgage and guarantees that if an owner defaults, the bank will be covered for the amount of the mortgage. For this service you will be required to pay a premium. This fee can be paid as a lump sum at the beginning of the mortgage, however, it is more common for the fee to be built into the mortgage and spread over the amortization period. The premium for those who put 5% - 9.9% down is 2.75% of the mortgage amount. As your down payment increases your premium amount decreases.

<b>Premium chart</b>	5% - 9.9% down payment = 2.75% premiums
	10% - 14.99% down payment = 2.00% premium.
	15% - 19.99% down payment = 1.75% premium
	20% - 24.99% down payment = 1.00% premium

Here are some criteria that must be met in order to take advantage of this program:

- I. Maximum purchase price is \$250,000.00 for first time and past owners putting 5% down. Past owners putting down 10% or more are not subject to a limited purchase price.
- II. You must be off the probation period typical of new employees
- III. You must be working at the same job or at the same type of work for at least one year.
- IV. You must qualify based on the bank's posted 5 year interest rate.
- V. CMHC must verify that a sum totaling 1.5% of the purchase price is in the purchaser's account for closing costs in addition to be 5% down.

## **GIFT MONEY**

Money given to a purchaser for the down payment must be in their bank account at the time an offer is accepted along with a letter from the contributor that the money is not to be repaid. This is required to have a final approval of financing and remove the subject clause pertaining to financing in the contract.

## **CONVENTIONAL MORTGAGES**

A conventional mortgage requires a minimum of 25% down. With 25% down a first time buyer can avoid CMHC premiums and avoid paying the property purchase tax.

## **RENTAL INCOME**

CMHC will not take into consideration an unauthorized suite as income to supplement the mortgage payments.

## **LANDED IMMIGRANTS/SELF EMPLOYMENT**

Some people new to the country or those who are self employed may be limited in the amount of background information they can provide to the financial institution and they may be offered a 65% loan to value ratio. This means if a property is worth \$100,000. The loan will be based on a value of \$65,000. CMHC requires that a new person to the country must have one year of landed immigrant status to take advantage of the 5% down program. Those who are self employed are usually required to show proof of three years of taxable income for debt servicing.

## **RRSP HOME BUYER'S PLAN**

The HomeBuyers' Plan (HBP) is a program under which you can, generally, withdraw up to \$20,000 from your retirement savings plan (RRSPs) to buy or build a qualifying home. Withdrawals that meet all applicable HBP conditions do not have to be included in your income, and your RRSP issuer will not withhold tax on these amounts. However, before you can withdraw funds you must have entered into a written agreement to buy or build a qualifying home which you must occupy no later than one year after buying or building the home.

If you buy the qualifying home together with your spouse or other individuals, each of you can withdraw up to \$20,000. You cannot withdraw an amount from your RRSP under the HBP if you or your spouse owned the home more than 30 days before the date of your withdrawal.

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## Details

- Up to \$20,000 per person could be withdrawn tax-free from RRSPs to buy or build a principle residence. Couples -- including common-law -- will be able to withdraw up to \$40,000.
- You have to meet the first-time buyer's condition. You are not considered a first-time home buyer if you or your spouse owned a home that you occupied as your principle place of residence in the past 5 years. To determine past 5 years, the 4 years preceding the year you make your withdrawal plus the period in the year you make your withdrawal ending 31 days before your withdrawal is the rule adopted.
- Home buyers withdrawing funds do not have to pay income tax on the amount withdrawn, as long as the funds are repaid into an RRSP in the future.
- The 15-year repayment period will begin in the second calendar year following the calendar year in which the withdrawal is made. In addition, a qualifying home must generally be acquired before October 1 of the calendar year following the year of withdrawal. For example, those making withdrawals under the plan in 2000 will have until October 1, 2001 to acquire a qualifying home and their first annual repayment will be due by the end of 2002 or the first two months of 2003.
- A special rule denies a tax deduction for contributions to an RRSP that are withdrawn within 90 days of the RRSP deposit being made. Consequently, to get the normal tax break for a contribution and to use those funds under the plan, the money must be in your RRSP for at least 90 days before a withdrawal is made.

You can participate in the HBP more than once if:

- Your HBP balance for your previous participation is zero on January 1 of the year you want your new participation in the HBP to occur; and
- You meet the first-time buyer's condition and all other HBP conditions that apply to your situation.

Existing homeowners can use the HBP to purchase a more accessible home or a home for a disabled dependent relative where the individual withdrawing the funds:

- qualifies for the disability tax credit (DTC) and is buying a home that is more accessible for the individual or is better suited for the care of the individual;
- is related to a disabled individual who qualifies for the DTC and is buying a home for the benefit of the disabled individual that is more accessible for, or better suited for, the care of the disabled individual, or;
- is related to a disabled individual who qualifies for the DTC and is withdrawing an amount for the disabled individual to buy a home that is more accessible for, or better suited for, the care of the disabled individual.

For more information call 1-800-959-8281 or visit Revenue Canada's web site at <http://www.ccra-adrc.gc.ca/menu/EmenuGOC.html>