
OLR Bill Analysis

SB 904

AN ACT REQUIRING THE COMMISSIONER OF REVENUE SERVICES TO ESTABLISH A FIRST-TIME HOMEBUYER SAVINGS ACCOUNT PROGRAM AND ESTABLISHING A TAX DEDUCTION FOR CONTRIBUTIONS TO FIRST-TIME HOMEBUYER SAVINGS ACCOUNTS.

SUMMARY

This bill establishes a (1) first-time homebuyer savings account program to be administered by the Department of Revenue Services (DRS) within available appropriations and (2) limited personal income tax deduction for those who contribute to a program account.

Under the bill, the program's purpose is to encourage Connecticut residents to save for and purchase homes in the state. It allows for individuals to open savings accounts at financial institutions that are dedicated to paying for or reimbursing the downpayment and closing costs of a first-time homebuyer who will reside in the home purchased with account funds (i.e., the "qualified beneficiary"). The bill designates "first-time homebuyers" as those who have not owned or purchased, either individually or with someone else, a single-family residence during the three years immediately prior to the closing date of the real estate transaction involving a single-family residence.

The bill's income tax deduction is limited to 10 taxable years and equals, per taxable year, all contributions deposited by an account holder in the savings account during that year plus the interest accrued during the year, but not to exceed \$5,000 for an individual or \$10,000 for those filing jointly. To qualify for the deduction, the contributions and accrued interest must only be used for the qualified beneficiary's downpayment and closing costs.

The bill imposes a civil penalty of up to 10% of the amount of funds that are withdrawn from an account for a reason other than the

program's designated purpose.

Lastly, the bill requires the DRS commissioner to prepare program forms and allows him to adopt regulations to implement the program.

EFFECTIVE DATE: July 1, 2019, and the tax credit is applicable to tax years beginning on or after January 1, 2019.

FIRST-TIME HOMEBUYER SAVINGS ACCOUNT PROGRAM

Program Scope

Under the bill, a first-time homebuyer savings account may be opened at a bank or credit union, trust company, savings institution, industrial loan association, consumer finance company, benefit association, insurance company, safe deposit company, money market mutual fund, or similar entity authorized to do business in Connecticut.

The bill allows anyone to contribute to a first-time homebuyer savings account and there is no limit to the amount of contributions that may be made to, or contained in, an account. Accounts must only contain cash and other marketable securities.

The bill limits the use of account funds to paying for (1) a qualified beneficiary's downpayment and closing costs to purchase a single-family residence in the state as his or her primary residence and (2) the financial institution's account service fees. Allowable closing costs are the disbursements listed on the statement of receipts and disbursements associated with the home purchase.

Under the bill, a "single-family residence" is a single-family residential dwelling and includes a mobile manufactured home or a unit in a cooperative, common interest community, or condominium.

Account Holder Responsibilities

Establishing the Account. Under the bill, an individual may establish one or more accounts with financial institutions as part of the program. Individuals who file a joint tax return may jointly establish and serve as holders of an account under the program, but the bill

requires them to jointly file tax returns for each taxable year that the account exists.

The bill prohibits an account holder from using any funds deposited into an account to pay administrative fees or expenses, other than the financial institution's service fees.

Designating the Beneficiary. The bill requires an account holder or joint holders, by April 15 of the year immediately following the taxable year during which the holder or holders established an account, to designate the account's qualified beneficiary.

Under the bill, account holders may designate a new qualified beneficiary at any time but there may be only one qualified beneficiary associated with an account at a time. In addition, the bill prohibits anyone from establishing or serving as an account holder of more than one account with the same qualified beneficiary.

Tax Reporting. The bill requires an account holder to submit to the DRS commissioner certain information for each taxable year during which the holder has a first-time homebuyer savings account.

Specifically, the bill requires an account holder to submit the following information with his or her income tax return:

1. detailed information on the account, including a list of all transactions that occurred during the taxable year that are subject of the return;
2. the Internal Revenue Service Form 1099 issued by the financial institution for the account; and
3. if the account holder withdrew funds from the account during the taxable year that is the subject of the return, (a) a detailed accounting of the eligible costs paid or reimbursed during the taxable year with account funds and (b) the remaining account balance.

Withdrawing Funds. The bill allows an account holder to

withdraw any amount of the funds contributed to and deposited in an account, without penalty, as long as the funds are deposited in another first-time homebuyer savings account.

But an account holder who withdraws from the account for a reason other than paying or reimbursing the qualified beneficiary for the downpayment or closing costs used to purchase the home must pay the state a civil penalty of up to 10% of the withdrawn amount. (It is unclear how the withdrawal penalty percentage will be determined. Presumably, it would be set by the DRS commissioner in regulations, but the bill only authorizes the commissioner to adopt regulations, it does not require him to do so.)

The bill waives the withdrawal penalty for the following three limited circumstances, the:

1. withdrawn funds were subsequently deposited in another account under the first-time homebuyer savings program,
2. withdrawal was due to the death or disability of an account holder who established the account, or
3. withdrawal is considered an asset disbursement as part of a bankruptcy proceeding.

Commissioner Responsibilities

As part of his responsibilities in administering the program, the bill requires the DRS commissioner to prepare forms for:

1. designating (a) accounts as first-time homebuyer savings accounts and (b) qualified beneficiaries and
2. account holders to submit to the commissioner information about their program accounts for tax purposes and any other information the commissioner needs to perform his program duties.

The bill also requires the commissioner to prepare and distribute informational and promotional materials about the program to

financial institutions and prospective first-time homebuyers.

Financial Institution Responsibilities

The bill limits the role of a financial institution under the program by not requiring that it:

1. designate an account as a “first-time homebuyer savings account” or someone as the account’s beneficiary,
2. track funds withdrawn from an account,
3. allocate account funds among account holders, or
4. disclose information to the DRS commissioner or a government agency unless the law requires it.

In addition, under the bill, a financial institution is not liable or responsible for:

1. determining if, or ensuring that, an account meets the law’s requirements;
2. determining if account funds are used to pay or reimburse eligible costs; and
3. disclosing or remitting taxes or penalties unless the law requires it.

However, the bill requires a financial institution to distribute the funds in a first-time homebuyer savings account when it receives proof of an account holder’s death and all other information required by the contract governing the account. The contract determines how the funds must be distributed.

COMMITTEE ACTION

Insurance and Real Estate Committee

Joint Favorable
Yea 19 Nay 0 (03/14/2019)