



Senate

General Assembly

File No. 321

January Session, 2019

Senate Bill No. 904

Senate, April 2, 2019

The Committee on Insurance and Real Estate reported through SEN. LESSER of the 9th Dist., Chairperson of the Committee on the part of the Senate, that the bill ought to pass.

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.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. (NEW) (*Effective July 1, 2019*) (a) For the purposes of this
2 section:

3 (1) "Account holder" means an individual who, either individually
4 or jointly with another individual, establishes a first-time homebuyer
5 savings account;

6 (2) "Allowable closing costs" means the disbursements listed on a
7 settlement statement concerning a transaction involving the purchase
8 of a single-family residence in this state by a qualified beneficiary to
9 serve as the qualified beneficiary's primary residence;

10 (3) "Commissioner" means the Commissioner of Revenue Services;

11 (4) "Eligible costs" means the downpayment and all allowable
12 closing costs paid or reimbursed by a qualified beneficiary to purchase
13 a single-family residence in this state to serve as the qualified
14 beneficiary's primary residence;

15 (5) "Financial institution" means a bank, trust company, savings
16 institution, industrial loan association, consumer finance company,
17 credit union, benefit association, insurance company, safe deposit
18 company, money market mutual fund or other similar entity that is
19 authorized to do business in this state;

20 (6) "First-time homebuyer" means an individual who did not own or
21 purchase, either individually or jointly with another person, a single-
22 family residence during the three years immediately preceding the
23 closing date of a real estate transaction involving the purchase of a
24 single-family residence in this state by the individual;

25 (7) "First-time homebuyer savings account" means an account
26 established by one or more account holders with a financial institution
27 that the account holders designate, on such account holders' return for
28 the income tax imposed under chapter 229 of the general statutes for a
29 taxable year beginning on or after January 1, 2019, as an account
30 exclusively containing funds to pay or reimburse eligible costs
31 incurred by the eligible beneficiary of the account;

32 (8) "Program" means the first-time homebuyer savings account
33 program established by the commissioner pursuant to subsection (b) of
34 this section;

35 (9) "Qualified beneficiary" means a first-time homebuyer who is
36 designated as the qualified beneficiary of a first-time homebuyer
37 savings account and resides in the single-family residence in this state
38 that is purchased with the funds deposited in such account;

39 (10) "Settlement statement" means the statement of receipts and
40 disbursements for a transaction related to real estate, including, but
41 not limited to, a statement prescribed pursuant to the Real Estate

42 Settlement Procedures Act of 1974, 12 USC Section 2601 et seq., as
43 amended from time to time, and regulations adopted thereunder; and

44 (11) "Single-family residence" means a single-family residential
45 dwelling, including, but not limited to, a mobile manufactured home
46 or a residential unit in a cooperative, common interest community or
47 condominium.

48 (b) (1) The commissioner shall, within available appropriations,
49 establish a first-time homebuyer savings account program. The
50 purposes of the program shall be to enable first-time homebuyers in
51 this state to benefit from the state income tax deduction established in
52 subparagraph (B)(xxvi) of subdivision (20) of subsection (a) of section
53 12-701 of the general statutes, as amended by this act, and encourage
54 residents of this state to save for, and purchase, their first home in this
55 state.

56 (2) As part of the program, the commissioner shall:

57 (A) Prepare forms for (i) the designation of (I) accounts as first-time
58 homebuyer savings accounts, and (II) qualified beneficiaries, and (ii)
59 account holders to submit to the commissioner the information
60 described in subparagraph (B) of subdivision (1) of subsection (d) of
61 this section and any additional information that the commissioner, in
62 the commissioner's discretion, reasonably requires to perform the
63 commissioner's duties under this section; and

64 (B) Prepare and distribute to financial institutions and prospective
65 first-time homebuyers informational and promotional materials
66 concerning the program.

67 (c) An individual may, as part of the program, establish one or more
68 first-time homebuyer savings accounts with financial institutions. Two
69 individuals may jointly establish and serve as the account holders of a
70 first-time homebuyer savings account, provided such account holders
71 shall file a joint return for the income tax imposed under chapter 229 of
72 the general statutes for each taxable year during which such account

73 exists. The account holder or account holders shall, not later than April
74 fifteenth of the taxable year immediately following the taxable year
75 during which such account holder or account holders established a
76 first-time homebuyer savings account, designate the qualified
77 beneficiary of such account. The account holder or account holders of a
78 first-time homebuyer savings account may designate a new qualified
79 beneficiary of the account at any time, provided there shall not be
80 more than one qualified beneficiary of such account at any time. No
81 individual may establish or serve as an account holder of multiple
82 first-time homebuyer savings accounts that have the same qualified
83 beneficiary. First-time homebuyer savings accounts shall exclusively
84 contain cash and other marketable securities, and there shall be no
85 limit on the amount of contributions made to, or contained in, such
86 accounts. Any person may contribute to a first-time homebuyer
87 savings account.

88 (d) (1) Each account holder shall:

89 (A) Not use any portion of the funds contributed to, and deposited
90 in, a first-time homebuyer savings account to pay any administrative
91 fees or expenses, other than service fees imposed by the depository
92 financial institution, for such account;

93 (B) Submit to the commissioner, with such account holder's return
94 for the income tax imposed under chapter 229 of the general statutes
95 for each taxable year beginning on or after January 1, 2019, during
96 which a first-time homebuyer savings account established by such
97 account holder exists:

98 (i) Detailed information concerning such first-time homebuyer
99 savings account, including, but not limited to, a list of all transactions
100 concerning such account that occurred during the taxable year that is
101 the subject of such return;

102 (ii) The Internal Revenue Service Form 1099 issued by the
103 depository financial institution for such first-time homebuyer savings
104 account; and

105 (iii) If such account holder withdrew funds from such first-time
106 homebuyer savings account during the taxable year that is the subject
107 of such return, a detailed accounting of all eligible costs paid or
108 reimbursed using such funds during such taxable year and the balance
109 of funds remaining in such account.

110 (2) Each account holder may withdraw all, or any portion of, the
111 funds contributed to, and deposited in, a first-time homebuyer savings
112 account and deposit such funds in another first-time homebuyer
113 savings account established by such account holder at any financial
114 institution.

115 (e) (1) No financial institution shall be required to designate an
116 account as a first-time homebuyer savings account or an individual as
117 the qualified beneficiary of a first-time homebuyer savings account,
118 track the use of any funds withdrawn from a first-time homebuyer
119 savings account, allocate funds in a first-time homebuyer savings
120 account among account holders, or disclose any information to the
121 commissioner or any other governmental agency unless such
122 disclosure is required by applicable law.

123 (2) No financial institution shall be liable or responsible for (A)
124 determining whether, or ensuring that, an account satisfies the
125 requirements established in this section concerning first-time
126 homebuyer savings accounts or the funds in first-time homebuyer
127 savings accounts are used to pay or reimburse eligible costs, or (B)
128 disclosing or remitting taxes or penalties concerning first-time
129 homebuyer savings accounts unless such disclosure or remittance is
130 required by applicable law.

131 (3) Upon receiving proof of the death of an account holder and all
132 other information required by any contract governing a first-time
133 homebuyer savings account established by the account holder, the
134 depository financial institution shall distribute the funds in the first-
135 time homebuyer savings account in accordance with the terms of such
136 contract.

137 (f) (1) Each account holder who withdraws funds from a first-time
138 homebuyer savings account for any reason other than paying or
139 reimbursing the qualified beneficiary of such account for eligible costs
140 incurred by such qualified beneficiary shall be liable to this state for a
141 civil penalty in an amount not to exceed ten per cent of the withdrawn
142 amount.

143 (2) No account holder shall be liable for a penalty under subdivision
144 (1) of this subsection if the funds withdrawn from the first-time
145 homebuyer savings account:

146 (A) Were deposited in another first-time homebuyer savings
147 account pursuant to subdivision (2) of subsection (d) of this section;

148 (B) Were withdrawn due to the death or disability of an account
149 holder who established such account; or

150 (C) Constitute a disbursement of the assets of such account pursuant
151 to a filing for protection under the United States Bankruptcy Code, as
152 amended from time to time.

153 (g) The commissioner may adopt regulations, in accordance with
154 the provisions of chapter 54 of the general statutes, to implement the
155 provisions of this section.

156 Sec. 2. Subparagraph (B) of subdivision (20) of subsection (a) of
157 section 12-701 of the general statutes is repealed and the following is
158 substituted in lieu thereof (*Effective July 1, 2019, and applicable to taxable*
159 *years commencing on or after January 1, 2019*):

160 (B) There shall be subtracted therefrom:

161 (i) To the extent properly includable in gross income for federal
162 income tax purposes, any income with respect to which taxation by
163 any state is prohibited by federal law;

164 (ii) To the extent allowable under section 12-718, exempt dividends
165 paid by a regulated investment company;

166 (iii) To the extent properly includable in gross income for federal
167 income tax purposes, the amount of any refund or credit for
168 overpayment of income taxes imposed by this state, or any other state
169 of the United States or a political subdivision thereof, or the District of
170 Columbia;

171 (iv) To the extent properly includable in gross income for federal
172 income tax purposes and not otherwise subtracted from federal
173 adjusted gross income pursuant to clause (x) of this subparagraph in
174 computing Connecticut adjusted gross income, any tier 1 railroad
175 retirement benefits;

176 (v) To the extent any additional allowance for depreciation under
177 Section 168(k) of the Internal Revenue Code for property placed in
178 service after September 27, 2017, was added to federal adjusted gross
179 income pursuant to subparagraph (A)(ix) of this subdivision in
180 computing Connecticut adjusted gross income, twenty-five per cent of
181 such additional allowance for depreciation in each of the four
182 succeeding taxable years;

183 (vi) To the extent properly includable in gross income for federal
184 income tax purposes, any interest income from obligations issued by or
185 on behalf of the state of Connecticut, any political subdivision thereof,
186 or public instrumentality, state or local authority, district or similar
187 public entity created under the laws of the state of Connecticut;

188 (vii) To the extent properly includable in determining the net gain
189 or loss from the sale or other disposition of capital assets for federal
190 income tax purposes, any gain from the sale or exchange of obligations
191 issued by or on behalf of the state of Connecticut, any political
192 subdivision thereof, or public instrumentality, state or local authority,
193 district or similar public entity created under the laws of the state of
194 Connecticut, in the income year such gain was recognized;

195 (viii) Any interest on indebtedness incurred or continued to
196 purchase or carry obligations or securities the interest on which is
197 subject to tax under this chapter but exempt from federal income tax,

198 to the extent that such interest on indebtedness is not deductible in
199 determining federal adjusted gross income and is attributable to a
200 trade or business carried on by such individual;

201 (ix) Ordinary and necessary expenses paid or incurred during the
202 taxable year for the production or collection of income which is subject
203 to taxation under this chapter but exempt from federal income tax, or
204 the management, conservation or maintenance of property held for the
205 production of such income, and the amortizable bond premium for the
206 taxable year on any bond the interest on which is subject to tax under
207 this chapter but exempt from federal income tax, to the extent that
208 such expenses and premiums are not deductible in determining federal
209 adjusted gross income and are attributable to a trade or business
210 carried on by such individual;

211 (x) (I) For taxable years commencing prior to January 1, 2019, for a
212 person who files a return under the federal income tax as an
213 unmarried individual whose federal adjusted gross income for such
214 taxable year is less than fifty thousand dollars, or as a married
215 individual filing separately whose federal adjusted gross income for
216 such taxable year is less than fifty thousand dollars, or for a husband
217 and wife who file a return under the federal income tax as married
218 individuals filing jointly whose federal adjusted gross income for such
219 taxable year is less than sixty thousand dollars or a person who files a
220 return under the federal income tax as a head of household whose
221 federal adjusted gross income for such taxable year is less than sixty
222 thousand dollars, an amount equal to the Social Security benefits
223 includable for federal income tax purposes;

224 (II) For taxable years commencing prior to January 1, 2019, for a
225 person who files a return under the federal income tax as an
226 unmarried individual whose federal adjusted gross income for such
227 taxable year is fifty thousand dollars or more, or as a married
228 individual filing separately whose federal adjusted gross income for
229 such taxable year is fifty thousand dollars or more, or for a husband
230 and wife who file a return under the federal income tax as married

231 individuals filing jointly whose federal adjusted gross income from
232 such taxable year is sixty thousand dollars or more or for a person who
233 files a return under the federal income tax as a head of household
234 whose federal adjusted gross income for such taxable year is sixty
235 thousand dollars or more, an amount equal to the difference between
236 the amount of Social Security benefits includable for federal income tax
237 purposes and the lesser of twenty-five per cent of the Social Security
238 benefits received during the taxable year, or twenty-five per cent of the
239 excess described in Section 86(b)(1) of the Internal Revenue Code;

240 (III) For the taxable year commencing January 1, 2019, and each
241 taxable year thereafter, for a person who files a return under the
242 federal income tax as an unmarried individual whose federal adjusted
243 gross income for such taxable year is less than seventy-five thousand
244 dollars, or as a married individual filing separately whose federal
245 adjusted gross income for such taxable year is less than seventy-five
246 thousand dollars, or for a husband and wife who file a return under
247 the federal income tax as married individuals filing jointly whose
248 federal adjusted gross income for such taxable year is less than one
249 hundred thousand dollars or a person who files a return under the
250 federal income tax as a head of household whose federal adjusted
251 gross income for such taxable year is less than one hundred thousand
252 dollars, an amount equal to the Social Security benefits includable for
253 federal income tax purposes; and

254 (IV) For the taxable year commencing January 1, 2019, and each
255 taxable year thereafter, for a person who files a return under the
256 federal income tax as an unmarried individual whose federal adjusted
257 gross income for such taxable year is seventy-five thousand dollars or
258 more, or as a married individual filing separately whose federal
259 adjusted gross income for such taxable year is seventy-five thousand
260 dollars or more, or for a husband and wife who file a return under the
261 federal income tax as married individuals filing jointly whose federal
262 adjusted gross income from such taxable year is one hundred
263 thousand dollars or more or for a person who files a return under the
264 federal income tax as a head of household whose federal adjusted

265 gross income for such taxable year is one hundred thousand dollars or
266 more, an amount equal to the difference between the amount of Social
267 Security benefits includable for federal income tax purposes and the
268 lesser of twenty-five per cent of the Social Security benefits received
269 during the taxable year, or twenty-five per cent of the excess described
270 in Section 86(b)(1) of the Internal Revenue Code;

271 (xi) To the extent properly includable in gross income for federal
272 income tax purposes, any amount rebated to a taxpayer pursuant to
273 section 12-746;

274 (xii) To the extent properly includable in the gross income for
275 federal income tax purposes of a designated beneficiary, any
276 distribution to such beneficiary from any qualified state tuition
277 program, as defined in Section 529(b) of the Internal Revenue Code,
278 established and maintained by this state or any official, agency or
279 instrumentality of the state;

280 (xiii) To the extent allowable under section 12-701a, contributions to
281 accounts established pursuant to any qualified state tuition program,
282 as defined in Section 529(b) of the Internal Revenue Code, established
283 and maintained by this state or any official, agency or instrumentality
284 of the state;

285 (xiv) To the extent properly includable in gross income for federal
286 income tax purposes, the amount of any Holocaust victims' settlement
287 payment received in the taxable year by a Holocaust victim;

288 (xv) To the extent properly includable in gross income for federal
289 income tax purposes of an account holder, as defined in section 31-
290 51ww, interest earned on funds deposited in the individual
291 development account, as defined in section 31-51ww, of such account
292 holder;

293 (xvi) To the extent properly includable in the gross income for
294 federal income tax purposes of a designated beneficiary, as defined in
295 section 3-123aa, interest, dividends or capital gains earned on

296 contributions to accounts established for the designated beneficiary
297 pursuant to the Connecticut Homecare Option Program for the Elderly
298 established by sections 3-123aa to 3-123ff, inclusive;

299 (xvii) To the extent properly includable in gross income for federal
300 income tax purposes, any income received from the United States
301 government as retirement pay for a retired member of (I) the Armed
302 Forces of the United States, as defined in Section 101 of Title 10 of the
303 United States Code, or (II) the National Guard, as defined in Section
304 101 of Title 10 of the United States Code;

305 (xviii) To the extent properly includable in gross income for federal
306 income tax purposes for the taxable year, any income from the
307 discharge of indebtedness in connection with any reacquisition, after
308 December 31, 2008, and before January 1, 2011, of an applicable debt
309 instrument or instruments, as those terms are defined in Section 108 of
310 the Internal Revenue Code, as amended by Section 1231 of the
311 American Recovery and Reinvestment Act of 2009, to the extent any
312 such income was added to federal adjusted gross income pursuant to
313 subparagraph (A)(xi) of this subdivision in computing Connecticut
314 adjusted gross income for a preceding taxable year;

315 (xix) To the extent not deductible in determining federal adjusted
316 gross income, the amount of any contribution to a manufacturing
317 reinvestment account established pursuant to section 32-9zz in the
318 taxable year that such contribution is made;

319 (xx) To the extent properly includable in gross income for federal
320 income tax purposes, (I) for the taxable year commencing January 1,
321 2015, ten per cent of the income received from the state teachers'
322 retirement system, (II) for the taxable years commencing January 1,
323 2016, January 1, 2017, and January 1, 2018, twenty-five per cent of the
324 income received from the state teachers' retirement system, and (III)
325 for the taxable year commencing January 1, 2019, and each taxable year
326 thereafter, fifty per cent of the income received from the state teachers'
327 retirement system or the percentage, if applicable, pursuant to clause
328 (xxi) of this subparagraph;

329 (xxi) To the extent properly includable in gross income for federal
330 income tax purposes, except for retirement benefits under clause (iv) of
331 this subparagraph and retirement pay under clause (xvii) of this
332 subparagraph, for a person who files a return under the federal income
333 tax as an unmarried individual whose federal adjusted gross income
334 for such taxable year is less than seventy-five thousand dollars, or as a
335 married individual filing separately whose federal adjusted gross
336 income for such taxable year is less than seventy-five thousand dollars,
337 or as a head of household whose federal adjusted gross income for
338 such taxable year is less than seventy-five thousand dollars, or for a
339 husband and wife who file a return under the federal income tax as
340 married individuals filing jointly whose federal adjusted gross income
341 for such taxable year is less than one hundred thousand dollars, (I) for
342 the taxable year commencing January 1, 2019, fourteen per cent of any
343 pension or annuity income, (II) for the taxable year commencing
344 January 1, 2020, twenty-eight per cent of any pension or annuity
345 income, (III) for the taxable year commencing January 1, 2021, forty-
346 two per cent of any pension or annuity income, (IV) for the taxable
347 year commencing January 1, 2022, fifty-six per cent of any pension or
348 annuity income, (V) for the taxable year commencing January 1, 2023,
349 seventy per cent of any pension or annuity income, (VI) for the taxable
350 year commencing January 1, 2024, eighty-four per cent of any pension
351 or annuity income, and (VII) for the taxable year commencing January
352 1, 2025, and each taxable year thereafter, any pension or annuity
353 income;

354 (xxii) The amount of lost wages and medical, travel and housing
355 expenses, not to exceed ten thousand dollars in the aggregate, incurred
356 by a taxpayer during the taxable year in connection with the donation
357 to another person of an organ for organ transplantation occurring on
358 or after January 1, 2017;

359 (xxiii) To the extent properly includable in gross income for federal
360 income tax purposes, the amount of any financial assistance received
361 from the Crumbling Foundations Assistance Fund or paid to or on
362 behalf of the owner of a residential building pursuant to sections 8-442

363 and 8-443; [, and]

364 (xxiv) To the extent properly includable in gross income for federal
 365 income tax purposes, the amount calculated pursuant to subsection (b)
 366 of section 12-704g for income received by a general partner of a
 367 venture capital fund, as defined in 17 CFR 275.203(l)-1, as amended
 368 from time to time; [and]

369 (xxv) To the extent any portion of a deduction under Section 179 of
 370 the Internal Revenue Code was added to federal adjusted gross income
 371 pursuant to subparagraph (A)(xiv) of this subdivision in computing
 372 Connecticut adjusted gross income, twenty-five per cent of such
 373 disallowed portion of the deduction in each of the four succeeding
 374 taxable years; [.] and

375 (xxvi) An amount equal to all contributions deposited by an account
 376 holder in a first-time homebuyer savings account established pursuant
 377 to subsection (c) of section 1 of this act and all interest accrued thereon
 378 during the taxable year, provided (I) such contributions and accrued
 379 interest are exclusively used to pay or reimburse eligible costs incurred
 380 by the qualified beneficiary of the account, (II) the subtraction
 381 available under this subparagraph shall not exceed five thousand
 382 dollars in the aggregate for an individual, or ten thousand dollars in
 383 the aggregate for individuals married and filing jointly, for the taxable
 384 year, and (III) the subtraction available under this subparagraph shall
 385 only be available for the account for ten taxable years.

This act shall take effect as follows and shall amend the following sections:		
Section 1	July 1, 2019	New section
Sec. 2	July 1, 2019, and applicable to taxable years commencing on or after January 1, 2019	12-701(a)(20)(B)

INS *Joint Favorable*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 20 \$	FY 21 \$
Revenue Serv., Dept.	GF - Revenue Loss	Up to 4.8 million	Up to 19.1 million
Revenue Serv., Dept.	GF - Cost	191,213- 211,213	68,530
State Comptroller - Fringe Benefits ¹	GF - Cost	27,273	28,228

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill, which establishes a first-time homebuyer savings account program and associated income tax deduction, results in: 1) a General Fund revenue loss of up to \$4.8 million in FY 20 (partial year) and up to \$19.1 million in FY 21, 2) a one-time cost to the Department of Revenue Services (DRS) of \$125,000-\$145,000 for updates to the online Taxpayer Service Center and internal Integrated Tax Administration System and a durational project manager in FY 20 only, and 3) an ongoing cost to the DRS of \$93,486 in FY 20 and \$96,758 in FY 21 for salary and fringe benefit costs associated with one Revenue Examiner.

Projected Revenue Loss

The projected revenue loss is derived from 2017 information from the National Realtors Association indicating 34% of homes sold annually are to first-time buyers, which represents approximately

¹The fringe benefit costs for most state employees are budgeted centrally in accounts administered by the Comptroller. The estimated active employee fringe benefit cost associated with most personnel changes is 41.19% of payroll in FY 20 and FY 21.

17,800 sales in Connecticut.

As the deduction is available for up to 10 successive years the revenue loss increases from FY 20 through FY 29, at which point the revenue loss annualizes at up to \$95.4 million. The revenue loss could be less to the extent that program participants: 1) do not participate in the program for the full 10 years, 2) are not eligible to deduct the maximum amount in any given year, or 3) incur penalties for nonqualified withdrawals.

The Out Years

State Impact:

Agency Affected	Fund-Effect	FY 22 \$	FY 23 \$	FY 24 \$
Revenue Serv., Dept.	GF - Revenue Loss	Up to 28.6 million	Up to 38.2 million	Up to 47.7 million
Revenue Serv., Dept.	GF - Cost*	69,901	71,299	72,725
State Comptroller - Fringe Benefits	GF - Cost*	28,793	29,369	29,956

Note: GF=General Fund

*These figures have been adjusted for inflation at a rate of 2%

Municipal Impact: None

Sources: *National Association of Realtors*

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)