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## OLR Bill Analysis

### sHB 5027

#### ***AN ACT REQUIRING THE BANKING COMMISSIONER 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 Banking (DOB) within available appropriations and (2) limited personal income tax deduction for those who contribute to, or are the qualified beneficiary of, a program account.

Under the bill, the program's purpose is to encourage Connecticut residents to save for and purchase first homes in the state. It allows for individuals to open savings accounts at state banks and credit unions that are dedicated to paying for or reimbursing the down payment and closing costs of an account holder who is a first-time home buyer and 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 previously owned or purchased, either individually or with someone else, a single-family residence.

If funds are withdrawn from an account for a reason other than the program's designated purpose, the bill generally imposes a civil penalty of up to 10% of the amount of withdrawn funds. It requires the DOB commissioner to (1) prepare program forms and (2) adopt regulations to implement the program.

The bill's state income tax deduction for account holders is available if the savings account contributions are not deductible for determining federal gross income tax. It is limited to 10 taxable years or the taxable years up to and including the year the funds are used to pay or

reimburse program eligible costs. The deduction equals, per taxable year, all contributions deposited by an account holder in the savings account during that year, but not to exceed \$5,000 for an individual or head of household, or \$10,000 for those filing jointly. Account interest and investment earnings that are properly included in gross income for federal tax purposes are also deductible.

For an account's qualified beneficiary that properly includes the amount in gross income for federal income tax purposes, the bill's state income tax deduction is the amount of any withdrawal from the account that is used to pay or reimburse him or her for program eligible costs.

EFFECTIVE DATE: July 1, 2021, and the tax credits are applicable to tax years beginning on or after January 1, 2021.

## **FIRST-TIME HOMEBUYER SAVINGS ACCOUNT PROGRAM**

### ***Program Scope***

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 down payment and closing costs to purchase a single-family residence in the state as his or her primary residence (i.e., "eligible costs") and (2) the bank's or credit union'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 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 for administrative fees or expenses, other than the bank's or credit union's service fees.

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

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 DOB 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 his or her income tax return, along with the following information:

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

But withdrawing from the account for a reason other than transferring the funds to another such account or paying or reimbursing the qualified beneficiary for the home purchase down payment or closing costs is generally subject to a state civil penalty of up to 10% of the withdrawn amount.

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

1. the withdrawn funds were subsequently deposited in another account under the first-time homebuyer savings program,
2. the withdrawal was due to the death or disability of an account holder who established the account, or
3. the 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 DOB 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 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 state banks and credit unions and prospective first-time homebuyers.

### ***Bank or Credit Union Responsibilities***

The bill limits the role of a bank or credit union 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 qualified beneficiary,
2. track the use of funds withdrawn from an account,
3. allocate account funds among account holders, or
4. disclose information to the DOB commissioner or a government agency unless the law requires it.

In addition, under the bill, a bank or credit union 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 the distribution of funds in a first-time homebuyer savings account when a bank or credit union receives proof of an account holder’s death and all other information required by the contract governing the account. The contract designates how the funds must be distributed.

## **COMMITTEE ACTION**

Banking Committee

Joint Favorable Substitute

Yea 18 Nay 0 (02/23/2021)