



House of Representatives

General Assembly

File No. 66

January Session, 2021

Substitute House Bill No. 5027

House of Representatives, March 17, 2021

The Committee on Banking reported through REP. DOUCETTE of the 13th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

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.

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

1 Section 1. (NEW) (*Effective July 1, 2021*) (a) For the purposes of this
2 section:

3 (1) "Account holder" means an individual who, either individually or
4 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 of
8 a single-family residence in this state by a qualified beneficiary to serve
9 as the qualified beneficiary's primary residence;

10 (3) "Commissioner" means the Banking Commissioner;

11 (4) "Connecticut bank" and "Connecticut credit union" have the same
12 meanings as provided in section 36a-2 of the general statutes;

13 (5) "Eligible costs" means the down payment and all allowable closing
14 costs paid or reimbursed by a qualified beneficiary to purchase a single-
15 family residence in this state to serve as the qualified beneficiary's
16 primary residence;

17 (6) "First-time homebuyer" means an individual who did not own or
18 purchase, either individually or jointly with another person, a single-
19 family residence prior to the closing date of a real estate transaction
20 involving the purchase of a single-family residence in this state by the
21 individual;

22 (7) "First-time homebuyer savings account" means an account
23 established by one or more account holders with a Connecticut bank or
24 Connecticut credit union that the account holders designate, on such
25 account holders' return for the income tax imposed under chapter 229
26 of the general statutes for a taxable year beginning on or after January
27 1, 2021, as an account exclusively containing funds to pay or reimburse
28 eligible costs incurred by the qualified beneficiary of the account;

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

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

36 (10) "Settlement statement" means the statement of receipts and
37 disbursements for a transaction related to real estate, including, but not
38 limited to, a statement prescribed pursuant to the Real Estate Settlement
39 Procedures Act of 1974, 12 USC Section 2601 et seq., as amended from
40 time to time, and regulations adopted thereunder; and

41 (11) "Single-family residence" means a single-family residential

42 dwelling, including, but not limited to, a mobile manufactured home or
43 a residential unit in a cooperative, common interest community or
44 condominium.

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

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

53 (A) Prepare forms for (i) the designation of accounts as first-time
54 homebuyer savings accounts, (ii) the designation of qualified
55 beneficiaries, and (iii) account holders to submit to the commissioner the
56 information described in subparagraph (B) of subdivision (1) of
57 subsection (d) of this section and any additional information that the
58 commissioner reasonably requires pursuant to the provisions of this
59 section; and

60 (B) Prepare and distribute to Connecticut banks, Connecticut credit
61 unions and prospective first-time homebuyers informational and
62 promotional materials concerning the program.

63 (c) An individual may, as part of the program, establish one or more
64 first-time homebuyer savings accounts with a Connecticut bank or
65 Connecticut credit union. Two individuals may jointly establish and
66 serve as the account holders of a first-time homebuyer savings account,
67 provided such account holders shall file a joint return for the income tax
68 imposed under chapter 229 of the general statutes for each taxable year
69 during which such account exists. The account holder or account
70 holders shall, not later than April fifteenth of the taxable year
71 immediately following the taxable year during which such account
72 holder or account holders established a first-time homebuyer savings
73 account, designate the qualified beneficiary of such account. The

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

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

85 (A) Not use any portion of the funds deposited in a first-time
86 homebuyer savings account to pay any administrative fees or expenses,
87 other than service fees imposed by the depository Connecticut bank or
88 Connecticut credit union, for such account;

89 (B) Submit to the commissioner such account holder's tax return for
90 each taxable year beginning on or after January 1, 2021, during which a
91 first-time homebuyer savings account established by such account
92 holder exists, along with:

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

97 (ii) The Internal Revenue Service Form 1099 issued by the depository
98 Connecticut bank or Connecticut credit union for such first-time
99 homebuyer savings account; and

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

105 (2) Each account holder may withdraw all, or any portion of, the
106 funds contributed to and deposited in a first-time homebuyer savings
107 account and deposit such funds in another first-time homebuyer savings
108 account established by such account holder at any Connecticut bank or
109 Connecticut credit union.

110 (e) (1) No Connecticut bank or Connecticut credit union shall be
111 required to (A) designate an account as a first-time homebuyer savings
112 account or an individual as the qualified beneficiary of a first-time
113 homebuyer savings account, (B) track the use of any funds withdrawn
114 from a first-time homebuyer savings account, (C) allocate funds in a
115 first-time homebuyer savings account among account holders, or (D)
116 disclose any information to the commissioner or any other
117 governmental agency unless such disclosure is required by applicable
118 law.

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

127 (3) Upon receiving proof of the death of an account holder and all
128 other information required by any contract governing a first-time
129 homebuyer savings account established by the account holder, the
130 depository Connecticut bank or Connecticut credit union shall
131 distribute the funds in the first-time homebuyer savings account in
132 accordance with the terms of such contract.

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

138 amount.

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

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

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

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

149 (g) The commissioner shall adopt regulations, in accordance with the
150 provisions of chapter 54 of the general statutes, to implement the
151 provisions of this section.

152 Sec. 2. Subparagraph (B) of subdivision (20) of subsection (a) of
153 section 12-701 of the general statutes is repealed and the following is
154 substituted in lieu thereof (*Effective July 1, 2021, and applicable to taxable*
155 *years commencing on or after January 1, 2021*):

156 (B) There shall be subtracted therefrom:

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

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

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

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

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

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

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

191 (viii) Any interest on indebtedness incurred or continued to purchase
192 or carry obligations or securities the interest on which is subject to tax
193 under this chapter but exempt from federal income tax, to the extent that
194 such interest on indebtedness is not deductible in determining federal
195 adjusted gross income and is attributable to a trade or business carried
196 on by such individual;

197 (ix) Ordinary and necessary expenses paid or incurred during the
198 taxable year for the production or collection of income which is subject

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

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

220 (II) For taxable years commencing prior to January 1, 2019, for a
221 person who files a return under the federal income tax as an unmarried
222 individual whose federal adjusted gross income for such taxable year is
223 fifty thousand dollars or more, or as a married individual filing
224 separately whose federal adjusted gross income for such taxable year is
225 fifty thousand dollars or more, or for a husband and wife who file a
226 return under the federal income tax as married individuals filing jointly
227 whose federal adjusted gross income from such taxable year is sixty
228 thousand dollars or more or for a person who files a return under the
229 federal income tax as a head of household whose federal adjusted gross
230 income for such taxable year is sixty thousand dollars or more, an
231 amount equal to the difference between the amount of Social Security
232 benefits includable for federal income tax purposes and the lesser of

233 twenty-five per cent of the Social Security benefits received during the
234 taxable year, or twenty-five per cent of the excess described in Section
235 86(b)(1) of the Internal Revenue Code;

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

249 (IV) For the taxable year commencing January 1, 2019, and each
250 taxable year thereafter, for a person who files a return under the federal
251 income tax as an unmarried individual whose federal adjusted gross
252 income for such taxable year is seventy-five thousand dollars or more,
253 or as a married individual filing separately whose federal adjusted gross
254 income for such taxable year is seventy-five thousand dollars or more,
255 or for a husband and wife who file a return under the federal income tax
256 as married individuals filing jointly whose federal adjusted gross
257 income from such taxable year is one hundred thousand dollars or more
258 or for a person who files a return under the federal income tax as a head
259 of household whose federal adjusted gross income for such taxable year
260 is one hundred thousand dollars or more, an amount equal to the
261 difference between the amount of Social Security benefits includable for
262 federal income tax purposes and the lesser of twenty-five per cent of the
263 Social Security benefits received during the taxable year, or twenty-five
264 per cent of the excess described in Section 86(b)(1) of the Internal
265 Revenue Code;

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

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

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

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

283 (xv) To the extent properly includable in gross income for federal
284 income tax purposes of an account holder, as defined in section 31-
285 51ww, interest earned on funds deposited in the individual
286 development account, as defined in section 31-51ww, of such account
287 holder;

288 (xvi) To the extent properly includable in the gross income for federal
289 income tax purposes of a designated beneficiary, as defined in section
290 3-123aa, interest, dividends or capital gains earned on contributions to
291 accounts established for the designated beneficiary pursuant to the
292 Connecticut Homecare Option Program for the Elderly established by
293 sections 3-123aa to 3-123ff, inclusive;

294 (xvii) To the extent properly includable in gross income for federal
295 income tax purposes, any income received from the United States
296 government as retirement pay for a retired member of (I) the Armed

297 Forces of the United States, as defined in Section 101 of Title 10 of the
298 United States Code, or (II) the National Guard, as defined in Section 101
299 of Title 10 of the United States Code;

300 (xviii) To the extent properly includable in gross income for federal
301 income tax purposes for the taxable year, any income from the discharge
302 of indebtedness in connection with any reacquisition, after December
303 31, 2008, and before January 1, 2011, of an applicable debt instrument or
304 instruments, as those terms are defined in Section 108 of the Internal
305 Revenue Code, as amended by Section 1231 of the American Recovery
306 and Reinvestment Act of 2009, to the extent any such income was added
307 to federal adjusted gross income pursuant to subparagraph (A)(xi) of
308 this subdivision in computing Connecticut adjusted gross income for a
309 preceding taxable year;

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

314 (xx) To the extent properly includable in gross income for federal
315 income tax purposes, (I) for the taxable year commencing January 1,
316 2015, ten per cent of the income received from the state teachers'
317 retirement system, (II) for the taxable years commencing January 1,
318 2016, to January 1, 2020, inclusive, twenty-five per cent of the income
319 received from the state teachers' retirement system, and (III) for the
320 taxable year commencing January 1, 2021, and each taxable year
321 thereafter, fifty per cent of the income received from the state teachers'
322 retirement system or the percentage, if applicable, pursuant to clause
323 (xxi) of this subparagraph;

324 (xxi) To the extent properly includable in gross income for federal
325 income tax purposes, except for retirement benefits under clause (iv) of
326 this subparagraph and retirement pay under clause (xvii) of this
327 subparagraph, for a person who files a return under the federal income
328 tax as an unmarried individual whose federal adjusted gross income for
329 such taxable year is less than seventy-five thousand dollars, or as a

330 married individual filing separately whose federal adjusted gross
331 income for such taxable year is less than seventy-five thousand dollars,
332 or as a head of household whose federal adjusted gross income for such
333 taxable year is less than seventy-five thousand dollars, or for a husband
334 and wife who file a return under the federal income tax as married
335 individuals filing jointly whose federal adjusted gross income for such
336 taxable year is less than one hundred thousand dollars, (I) for the taxable
337 year commencing January 1, 2019, fourteen per cent of any pension or
338 annuity income, (II) for the taxable year commencing January 1, 2020,
339 twenty-eight per cent of any pension or annuity income, (III) for the
340 taxable year commencing January 1, 2021, forty-two per cent of any
341 pension or annuity income, (IV) for the taxable year commencing
342 January 1, 2022, fifty-six per cent of any pension or annuity income, (V)
343 for the taxable year commencing January 1, 2023, seventy per cent of any
344 pension or annuity income, (VI) for the taxable year commencing
345 January 1, 2024, eighty-four per cent of any pension or annuity income,
346 and (VII) for the taxable year commencing January 1, 2025, and each
347 taxable year thereafter, any pension or annuity income;

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

353 (xxiii) To the extent properly includable in gross income for federal
354 income tax purposes, the amount of any financial assistance received
355 from the Crumbling Foundations Assistance Fund or paid to or on
356 behalf of the owner of a residential building pursuant to sections 8-442
357 and 8-443;

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

363 (xxv) To the extent any portion of a deduction under Section 179 of
364 the Internal Revenue Code was added to federal adjusted gross income
365 pursuant to subparagraph (A)(xiv) of this subdivision in computing
366 Connecticut adjusted gross income, twenty-five per cent of such
367 disallowed portion of the deduction in each of the four succeeding
368 taxable years; [.]

369 (xxvi) (I) To the extent not deductible in determining federal adjusted
370 gross income tax, an amount equal to the contributions deposited
371 during the taxable year by an account holder in a first-time homebuyer
372 savings account, established pursuant to subsection (c) of section 1 of
373 this act, not to exceed five thousand dollars for an unmarried individual,
374 a married individual filing separately or a head of household, or ten
375 thousand dollars for married individuals filing jointly. The deduction
376 under this clause shall be allowed for up to ten taxable years or for the
377 taxable years up to and including the taxable year in which the funds in
378 such account are used to pay or reimburse eligible costs incurred by the
379 qualified beneficiary of the account, whichever is sooner;

380 (II) To the extent properly includable in gross income for federal
381 income tax purposes, an amount equal to the sum of all interest accrued
382 on and investment earnings derived from a first-time homebuyer
383 savings account, established pursuant to subsection (c) of section 1 of
384 this act, during the taxable year;

385 (III) As used in this clause, "account holder", "eligible costs" and
386 "qualified beneficiary" have the same meanings as provided in section 1
387 of this act; and

388 (xxvii) (I) To the extent properly includable in gross income for
389 federal income tax purposes of a qualified beneficiary of a first-time
390 homebuyer savings account, established pursuant to section 1 of this act,
391 an amount equal to any withdrawal from such account used to pay or
392 reimburse such qualified beneficiary for eligible costs incurred by the
393 qualified beneficiary of such account;

394 (II) As used in this clause, "qualified beneficiary" and "eligible costs"

395 have the same meanings as provided in section 1 of this act.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>July 1, 2021</i>	New section
Sec. 2	<i>July 1, 2021, and applicable to taxable years commencing on or after January 1, 2021</i>	12-701(a)(20)(B)

BA *Joint Favorable Subst.*

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 22 \$	FY 23 \$
Department of Revenue Services	GF - Revenue Loss	Up to 4.8 million	Up to 19.2 million
Banking Dept. ¹	BF - Cost	138,855	143,020
Department of Revenue Services	GF - Cost	65,000 - 75,000	None

Note: GF=General Fund; BF=Banking Fund

Municipal Impact: None

Explanation

The bill, which establishes a first-time homebuyer savings account program² and associated income tax deduction, results in: 1) a General Fund revenue loss of up to \$4.8 million in FY 22 (partial year) and up to \$19.2 million in FY 23; 2) an ongoing cost to the Department of Banking of \$138,855 in FY 22 and \$143,020 in FY 23 for salary and fringe benefit costs associated with one Financial Examiner position; and 3) a one-time cost to the Department of Revenue Services of \$65,000-\$75,000 for updates to the online Taxpayer Service Center and internal Integrated Tax Administration System in FY 22 only.

Projected Revenue Loss

¹ The fringe benefit costs for employees funded out of other appropriated funds are budgeted within the fringe benefit account of those funds, as opposed to the fringe benefit accounts within the Office of the State Comptroller. The estimated active employee fringe benefit cost associated with most personnel changes for other appropriated fund employees is 95.57% of payroll in FY 22 and FY 23.

² Under the bill the program is administered by the Department of Banking.

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 18,190 sales in Connecticut.

As the deduction is available for up to 10 successive years the revenue loss increases from FY 22 through FY 31, at which point the revenue loss annualizes at up to \$96 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 24 \$	FY 25 \$	FY 26 \$
Department of Revenue Services (DRS16000)	GF - Revenue Loss	Up to 28.8 million	Up to 38.4 million	Up to 48 million
Banking Dept. (DOB37000)	BF - Cost*	145,880	148,798	151,774
Department of Revenue Services (DRS16000)	GF - Cost	None	None	None

Note: GF=General Fund; BF=Banking Fund
 *These figures have been adjusted for inflation at a rate of 2%

Municipal Impact: None

Sources: National Association of Realtors

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)