OLR Bill Analysis

sSB 182

AN ACT ESTABLISHING A FIRST-TIME HOMEBUYER SAVINGS ACCOUNT AND TAX DEDUCTION.

SUMMARY

This bill establishes an income tax deduction for certain individuals who contribute to, or who are the qualified beneficiaries of, funds deposited into a first-time homebuyer savings account. The bill requires the Department of Revenue Services (DRS) commissioner to implement the deduction, including preparing associated forms, and allows him to adopt associated regulations.

Under the bill, individuals may open at financial institutions (i.e., banks, out-of-state banks, credit unions, or their affiliates or third-party providers) savings accounts 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 resides (presumably, will reside) in a Connecticut 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 (including a mobile home or residential unit in a cooperative, common interest community or condominium).

To qualify for the bill's income tax deductions, account holders must have a federal adjusted gross income (AGI) below $100,000 (for single filers) or $200,000 (for joint filers) thresholds. Beginning with the 2024 tax year, the bill allows these account holders to deduct (1) the contributions deposited in the account, generally capped at $2,500 for single filers and $5,000 for joint filers; (2) any interest that accrues on the accounts; and (3) for an account holder who is also the account's qualified beneficiary, the amount withdrawn from the account that is used to pay or reimburse him or her for program eligible costs.

If funds are withdrawn from a first-time homebuyer savings account for a reason other than an allowed purpose, the bill generally imposes a civil penalty of up to 10% of the withdrawn amount.

The bill requires the treasurer, by July 1, 2023, to make recommendations to the Banking Committee about if and how marketable securities may be held in a first-time homebuyer savings account (§ 3).

EFFECTIVE DATE: January 1, 2023, for the homebuyer savings account tax deduction and upon passage for the treasurer's recommendations about marketable securities.

ACCOUNT FUNDS

The bill allows anyone to contribute to a first-time homebuyer savings account with no limit on contributions made to, or contained in, an account. Accounts must only contain cash, but account holders may invest the funds in money market funds.

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 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 POWERS AND RESPONSIBILITIES

Establishing the Account

Under the bill, an individual may establish one or more accounts. Individuals who file a joint tax return may jointly establish and serve as account holders, 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 financial institution’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 DRS commissioner the following information for each tax year during which the holder has a first-time homebuyer savings account:

1. his or her tax return;
2. any information the commissioner requires about the account to implement the tax deduction;
3. the Internal Revenue Service Form 1099 issued by the financial institution for the account; and
4. if the account holder withdrew funds from the account during the taxable year, (a) a detailed accounting of the eligible and ineligible 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.

The bill establishes a state civil penalty, collectible by the DRS commissioner, of up to 10% of the withdrawn amount for 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. (The bill does not specify how or when the DRS commissioner must set or assess the withdrawal penalty.) If the account holder deducted these withdrawn funds for state income tax purposes (presumably as contributions to or accrued interest on the account), then they are considered income (and presumably must be added to the account holder's AGI for the tax year in which they were withdrawn).

The bill waives the withdrawal penalty and does not consider the withdrawn funds as income under the following four circumstances:

1. the account holder did not claim the funds for a state income tax deduction (presumably, for the deductions established under the bill),

2. the withdrawn funds were subsequently deposited in another account under the first-time homebuyer savings program,

3. the withdrawal was due to the death or disability of an account holder who established the account, or

4. the withdrawal is considered an asset disbursement as part of a bankruptcy proceeding.

Commissioner Responsibilities

As part of his responsibilities under the bill for implementing the deduction, the DRS commissioner must prepare forms:

1. designating (a) accounts as first-time homebuyer savings accounts and (b) qualified beneficiaries and

2. to collect from account holders information for tax purposes and any other information the commissioner needs to perform his program duties.

Financial Institution Responsibilities

The bill allows the DRS commissioner to require financial institutions to provide certain (unspecified) information about each first-time homebuyer account. However, the bill also limits the role of financial institutions by specifying that they are not required to:

1. designate an account as a "first-time homebuyer savings account,"
2. track the use of funds withdrawn from an account, or
3. allocate account funds among account holders.

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

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

However, the bill requires a financial institution to distribute funds in a first-time homebuyer savings account in accordance with the contract governing the account when it receives proof of an account holder's death and all other information required by the contract.

TAX DEDUCTIONS

Beginning with the 2023 tax year, the bill establishes three tax deductions for first-time homebuyer account holders for single filers (i.e., unmarried individuals, married individuals filing separately, and heads of household) with a federal AGI of less than $100,000, and joint filers with a federal AGI of less than $200,000. The deductions are for (1) qualifying contributions, (2) accrued interest, and (3) withdrawals, and apply only to the extent the income is included in the taxpayer's federal AGI.

Under the bill, the deduction for contributions generally equals the amount contributed to an account during the applicable tax year, minus any funds withdrawn during the tax year that were not already claimed for a deduction, up to $2,500 for single filers and $5,000 for joint filers for each such tax year. For the 2024 tax year, account holders may deduct the amount contributed (less withdrawals) for both the 2023 and 2024 tax years, (i.e., $5,000 for single filers and $10,000 for joint filers, in the aggregate). The bill also specifies that the deduction for the 2024 tax year may be claimed to the extent allowable under the federal American Rescue Plan Act of 2021.

The bill also establishes a tax deduction for an account holder who is a qualified beneficiary in the amount of any withdrawal from an account that is used to pay or reimburse for the eligible costs he or she incurs (i.e., the income from a withdrawal used to pay eligible expenses is offset by this tax deduction).

COMMITTEE ACTION

Banking Committee

Joint Favorable
Yea 17 Nay 0 (03/08/2022)