

First-Time Homebuyer Savings Accounts

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Issue

Provide an overview of state first-time homebuyer savings account programs, highlighting the tax benefits and potential penalties involved for account beneficiaries.

Summary

First-time homebuyer savings accounts are used by prospective home buyers to plan and save for a home purchase while receiving a state tax incentive on account contributions, earned income, or both.

We identified the following 14 states that establish these programs statutorily: Alabama, Colorado, Idaho, Iowa, Kansas, Maryland, Michigan, Minnesota, Mississippi, Missouri, Montana, Oklahoma, Oregon, and Virginia. These programs' components vary by state, but each generally has provisions on the tax benefits received, contribution or account limits, and penalties for withdrawing funds for ineligible purposes. The table beginning on page three provides details about these provisions.

Program Components

Eligible Beneficiaries and Uses

Each state with a first-time homebuyer saving account program limits the use of account funds to paying downpayment and closing costs (e.g., itemized costs on a closing's settlement statement). Some states restrict the beneficiaries of the accounts to those who have never owned or purchased a home before (e.g., Idaho, Mississippi, Virginia), while the other states allow for individuals to

benefit from the program so long as they haven't owned or purchased a home within a recent time period (e.g., the last 10 years in Alabama and seven years in Maryland, three consecutive years after a divorce in Colorado).

Tax Benefits

The tax benefits vary by state. Some states, like Colorado, Minnesota, and Virginia, only provide for tax free earnings (e.g., interest) on account funds. Most states, however, provide for both tax free earnings and a deduction or tax exclusion for the funds contributed to the account (ranging from 50% of the contribution amount but no more than (1) the individual's or joint filers' adjusted gross income (AGI) for the year or (2) \$800 for individuals and \$1,600 for joint filers in Missouri, to \$15,000 for individuals and \$30,000 for joint filers in Idaho), subject to certain specific limits (e.g., aggregate contribution amount or how many years the deduction or exclusion applies).

Penalties

The penalties associated with improperly withdrawing account funds or failing to timely use funds also vary by state but generally involve subjecting the withdrawn funds to tax (recapture) and an additional penalty that is a percentage of the withdrawn amount. The states have exemptions from the penalties. Examples of these exemptions include withdrawals due to the account holder's death or disability; unemployment compensation benefit exhaustion; bankruptcy filing-related asset disbursements; or transfers to another first-time homebuyer account.

Additionally, some states subject account funds to tax if they are (1) used within a year after first opening the account or depositing funds or (2) not used within a certain number of years.

Table 1: General Provisions of First-Time Homebuyer Savings Account Programs

State and Statute	Eligible Account Holders/Tax Beneficiaries	Annual State Tax Benefit*	Contribution Limit/Account Limit	Penalties
<p>Alabama</p> <p>(Ala. Code § 24-11-1 et seq.)</p>	<ul style="list-style-type: none"> • State resident who is a first-time homebuyer or has not owned a home in the past 10 years and are purchasing an in-state home • Account must be opened before January 1, 2029 	<ul style="list-style-type: none"> • Deduction of up to (1) \$5,000 for a single taxpayer and (2) \$10,000 for married couples filing a joint return • Tax-free earnings on account funds • Caps the aggregate deduction and income exemption amount (1) at \$25,000 for individual accounts and \$50,000 for joint accounts and (2) at a maximum of ten years 	<p>None</p>	<ul style="list-style-type: none"> • Entire fund balance is taxable in the year of the ineligible expense withdrawal • Penalty of 10% of withdrawn amount for ineligible expenses • Funds not used within 10 years after the January 1 of the tax year for which the account holder first claimed a deduction is subject to tax
<p>Colorado</p> <p>(Colo. Rev. Stat. §§ 39-22-4701 et seq. & 39-22-104(5))</p>	<ul style="list-style-type: none"> • First-time homebuyer or someone who, after a divorce, has not been on a property title for at least three consecutive years • Intends to purchase an in-state home (or either in- or out-of-state if active-duty military) 	<ul style="list-style-type: none"> • Tax-free earnings on account funds 	<ul style="list-style-type: none"> • Caps annual contributions at \$14,000 for an individual and \$28,000 for joint filers • Caps total amount of contributions for all taxable years at \$50,000 • Caps total account balance at \$150,000 	<ul style="list-style-type: none"> • If any contribution or total account limits are exceeded, then account income is taxable • Funds withdrawn within one year after opening the account or for an ineligible purpose are taxable • Penalty of 5% for withdrawals made within 10 years after the first account deposit (increases to 10% for withdrawals made more than 10 years after the first deposit)

Table 1 (continued)

State and Statute	Eligible Account Holders/Tax Beneficiaries	Annual State Tax Benefit*	Contribution Limit/Account Limit	Penalties
<p>Idaho</p> <p>(Idaho Code Ann. § 63-3022V)</p>	<ul style="list-style-type: none"> State resident who is a first-time homebuyer 	<ul style="list-style-type: none"> Deduction of up to (1) \$15,000 for a single taxpayer and (2) \$30,000 for married couples filing a joint return Tax free earnings on account funds 	<ul style="list-style-type: none"> Caps annual contributions at the maximum deduction amounts Caps total contributions at \$100,000 	<ul style="list-style-type: none"> Funds withdrawn for an ineligible purpose is taxable as income
<p>Iowa</p> <p>(Iowa Code §§ 541B.1 et seq. & 422.7(27))</p>	<ul style="list-style-type: none"> State resident who is a first-time homebuyer or has not owned a home within three years before being named an account beneficiary or using an account to purchase a home 	<ul style="list-style-type: none"> Maximum \$2,000 exemption for those who file taxes singly (lifetime cap of \$20,000)** Maximum \$4,000 exemption for those filing jointly (lifetime cap of \$40,000)** Exemption only allowed during the 10 years following the opening of the account Tax-free earnings on account funds 	<p>None</p>	<ul style="list-style-type: none"> Funds not used within 10 years after the January 1 of the calendar year for which the account first opened are subject to tax and a 10% penalty Funds withdrawn for ineligible costs are taxable as income and subject to a 10% penalty Loss of exemption benefit after withdrawing funds for an ineligible cost

Table 1 (continued)

State and Statute	Eligible Account Holders/Tax Beneficiaries	Annual State Tax Benefit*	Contribution Limit/Account Limit	Penalties
<p>Kansas</p> <p>(Kan. Stat. Ann. § 58-4901 et seq.)</p>	<ul style="list-style-type: none"> • First-time homebuyer or someone who, after a divorce, has not been on a property title for at least three consecutive years 	<ul style="list-style-type: none"> • Tax free earnings on account funds 	<ul style="list-style-type: none"> • Maximum contribution of \$3,000 for an individual (lifetime cap of \$24,000) • Maximum contribution of \$6,000 for those filing jointly (lifetime cap of \$48,000) • Caps total account balance at \$50,000 	<ul style="list-style-type: none"> • After exceeding a contribution cap, then all interest and other account income is subject to recapture or penalty afterward • Unqualified withdrawals are subject to recapture, including if withdrawn within one year after a first account deposit or failing to have a surviving transfer upon death • Penalty of 5% of withdrawn amount subject to recapture for an ineligible cost occurring within 10 years after the first account deposit (increases to 10% for withdrawals made more than 10 years after the first deposit)
<p>Maryland</p> <p>(Md. Code Ann., Tax-Gen. § 10-208(z))</p>	<ul style="list-style-type: none"> • State resident who has not owned or purchased a home in the state within the last seven years 	<ul style="list-style-type: none"> • Deduction of up to \$5,000, for up to 10 years • Tax free earnings on account funds • Caps aggregate deduction for earnings at \$50,000 over the 10 years 	<p>None</p>	<ul style="list-style-type: none"> • Withdrawals for an ineligible purpose are subject to tax • Penalty of 10% of the withdrawn amount for withdrawals for ineligible purposes • Funds not used on eligible purposes within 15 years are subject to tax

Table 1 (continued)

State and Statute	Eligible Account Holders/Tax Beneficiaries	Annual State Tax Benefit*	Contribution Limit/Account Limit	Penalties
<p>Michigan</p> <p>(Mich. Comp. Laws §§ 565.1001 et seq. & 206.30(cc))</p>	<ul style="list-style-type: none"> • State resident who has not owned or purchased a home within the three years before purchasing a home with account funds • Account must be opened between 2022-2026 	<ul style="list-style-type: none"> • Deduction of up to (1) \$5,000 for a single taxpayer and (2) \$10,000 for joint filers • Tax-free earnings on account funds • Deduction ends after 2026 tax year 	<ul style="list-style-type: none"> • Caps account balance at \$50,000, but allows earnings to continue to accrue 	<ul style="list-style-type: none"> • Unqualified withdrawals are generally subject to tax, including if withdrawn within one year after opening an account (but see below) • Penalty of 10% of withdrawn amount for an ineligible cost (except for a hardship withdrawal, which is only subject to tax)
<p>Minnesota</p> <p>(Minn. Stat. § 462D.01 et seq.)</p>	<ul style="list-style-type: none"> • State resident who has not owned a home during the three years before (1) the end of the taxable year during which a deduction of account funds is claimed or (2) purchasing a home with account funds 	<ul style="list-style-type: none"> • Tax-free earnings on account funds 	<ul style="list-style-type: none"> • Caps annual contributions at \$14,000 for an individual and \$28,000 for joint filers • Caps total amount of contributions for all taxable years at (1) \$50,000 for individuals and (2) \$100,000 for joint filers • Caps total account balance at \$150,000 • Caps at 10 years how many years an account holder may contribute to the account 	<ul style="list-style-type: none"> • Amount in excess of total contributions that is withdrawn for ineligible costs is taxable as income • Penalty of 10% of the above amount • Funds not used within 10 years of opening the account are subject to tax

Table 1 (continued)

State and Statute	Eligible Account Holders/Tax Beneficiaries	Annual State Tax Benefit*	Contribution Limit/Account Limit	Penalties
<p>Mississippi</p> <p>(Miss. Code Ann. §§ 27-7-1101 & -1103)</p>	<ul style="list-style-type: none"> State residents who are first-time homebuyers 	<ul style="list-style-type: none"> Contributions exempted from taxable income (but see annual caps at right) Tax-free earnings on account funds 	<ul style="list-style-type: none"> Caps annual contributions at (1) \$2,500 for a single taxpayer and (2) \$5,000 for married couples filing jointly 	<ul style="list-style-type: none"> Funds withdrawn for ineligible costs are taxable as income Penalty of 10% of the above amount
<p>Missouri</p> <p>(Mo. Rev. Stat. §§ 443.1001 et seq. & 143.1150)</p>	<ul style="list-style-type: none"> First-time homebuyer or someone who, after a divorce, has not been on a property title for at least three consecutive years 	<ul style="list-style-type: none"> Deduction of 50% of annual contribution, capped at (1) the taxpayer's adjusted gross income (AGI) for that tax year or (2) \$800 for a single filer or \$1,600 for married filing jointly Tax-free earnings on account funds, capped at the taxpayer's AGI for that tax year 	<ul style="list-style-type: none"> Caps annual contribution at (1) \$1,600 for a single taxpayer and (2) \$3,200 for married couples filing jointly Caps total amount of contributions for all taxable years at \$20,000 Caps total account balance at \$30,000 	<ul style="list-style-type: none"> After exceeding a contribution cap, then all interest and other account income is subject to tax afterward Funds withdrawn within one year after opening the account or for an ineligible purpose is subject to tax Unqualified withdrawals are subject to tax, including if the withdrawal occurs within one year of the first deposit or if there is no surviving transfer upon death Penalty of 5% of withdrawn amount subject to tax that occurs within 10 years after the first account deposit (increases to 10% for withdrawals made more than 10 years after the first deposit)

Table 1 (continued)

State and Statute	Eligible Account Holders/Tax Beneficiaries	Annual State Tax Benefit*	Contribution Limit/Account Limit	Penalties
<p>Montana</p> <p>(Mont. Code Ann. §§ 15-63-101 to -205)</p>	<ul style="list-style-type: none"> State resident who is a first-time homebuyer who establishes an account before January 1, 2024 (see SB 0550 (2023)) 	<ul style="list-style-type: none"> Maximum \$3,000 exemption in year 1 for contributions by single filers, head of household, or married filing separately Maximum \$6,000 exemption in year 1 for contributions by joint filers Allows filers to carry over to subsequent years exemptions for amounts contributed that exceed the above maximums Benefits for new contributions sunset January 1, 2024 	<ul style="list-style-type: none"> None, but caps at 10 years how many years an account holder may contribute to the account 	<ul style="list-style-type: none"> Funds withdrawn for ineligible costs are taxable as income Penalty of 10% of funds withdrawn for an ineligible cost (except on the last business day of the account administrator's business year (i.e., the last weekday in December)) Funds not used within 10 years are subject to tax
<p>Oklahoma</p> <p>(Okla. Stat. tit. 46, § 311 et seq.)</p>	<ul style="list-style-type: none"> State resident who is a first-time homebuyer 	<ul style="list-style-type: none"> Maximum \$5,000 exemption for contributions by single filers Maximum \$10,000 exemption for contributions by joint filers Tax-free earnings on account funds Caps total tax exemption for contributions and earnings at \$50,000 	<p>None</p>	<ul style="list-style-type: none"> Funds withdrawn for ineligible costs are taxable as income Penalty of 10% of funds withdrawn for an ineligible cost Funds not used on eligible purposes within 15 years are subject to tax

Table 1 (continued)

State and Statute	Eligible Account Holders/Tax Beneficiaries	Annual State Tax Benefit*	Contribution Limit/Account Limit	Penalties
<p>Oregon</p> <p>(Or. Rev. Stat. §§ 316.796 to 316.803)</p>	<ul style="list-style-type: none"> State residents who (1) have not owned a home during the three years before purchasing a home with account funds and (2) open an account before January 1, 2027 	<ul style="list-style-type: none"> Maximum \$5,000 exemption for contributions by single filers Maximum \$10,000 exemption for contributions by joint filers Decreases maximum exemption based on taxpayer income (e.g., individuals reporting at least \$131,000 in income receive no exemption) Tax-free earnings on account funds Caps total tax exemption for contributions and earnings at \$50,000 during the 10 years following the opening of the account 	<p>None</p>	<ul style="list-style-type: none"> Funds withdrawn for ineligible costs are generally taxable as income Penalty of 5% of withdrawn amount for an ineligible cost Funds remaining in the account after 10 years are subject to tax
<p>Virginia</p> <p>(Va. Code Ann. § 36-171 et seq.)</p>	<ul style="list-style-type: none"> State resident who is a first-time homebuyer (both in- or out-of-state) 	<ul style="list-style-type: none"> Tax-free earnings on account funds 	<ul style="list-style-type: none"> Caps, at any one time, the amount of (1) principal in the account at \$50,000 and (2) total amount of funds in the account (principal and interest) at \$150,000 	<ul style="list-style-type: none"> Funds withdrawn for ineligible costs are taxable as income Penalty of 5% of withdrawn ineligible funds subject to tax

*still subject to applicable federal taxes

**adjusted for inflation (see <https://tax.iowa.gov/first-time-homebuyers-savings-account>)

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