OLR Bill Analysis
sHB 5344

AN ACT ESTABLISHING FIRST-TIME HOMEBUYER SAVINGS ACCOUNTS AND A RELATED TAX DEDUCTION AND CREDIT.

SUMMARY

This bill creates a first-time homebuyer savings program, generally allowing individuals and employers to contribute into specialized accounts to be used for eligible homebuying expenses and receive tax benefits for doing so.

Specifically, the bill creates (1) personal income tax deductions for certain individuals who contribute to, or are the qualified beneficiaries of, funds deposited into a first-time homebuyer savings account and (2) a business tax credit for employers who similarly contribute to the account of their employees. The bill requires the Department of Revenue Services (DRS) commissioner to implement the tax deduction and credit, including by preparing associated forms, and allows him to adopt implementing 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 homebuyer and resides 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 manufactured home or a unit in a cooperative, common interest community, or condominium).

To qualify for the bill's tax deductions, account holders must have a federal adjusted gross income (AGI) below $100,000 for single filers or $200,000 for joint filers. They may deduct (1) the contributions deposited

in the account, generally capped at $2,500 for single filers and $5,000 for joint filers; (2) accrued interest; and (3) for an account holder who is also the account's qualified beneficiary, the amount withdrawn that is used to pay or reimburse him or her for program eligible costs. For the bill's tax credit, employers may annually claim 10% of their contributions to employees' accounts, but the amount is capped at $2,500 for any specific employee.

If funds are withdrawn from a first-time homebuyer savings account for a reason other than an allowed purpose, the bill generally imposes a civil penalty of 10% of the withdrawn amount.

The bill also requires the treasurer, by July 1, 2025, to recommend to the Banking Committee whether and how marketable securities may be held in a first-time homebuyer savings account (§ 4).

EFFECTIVE DATE: January 1, 2025, except the provision on the treasurer's recommendations to the Banking Committee is effective upon passage.

ACCOUNT CONTRIBUTIONS

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.

It prohibits employers of account holders from seeking reimbursement for contributions they make to an employee's account if the employee leaves their employment.

USE OF ACCOUNT 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. The bill allows an account holder to withdraw funds from an account to be deposited into another account established for the same purpose.

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 hold accounts, so long as they 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 individual or joint account holders to designate the account's qualified beneficiary. They must do so by April 15 of the taxable year immediately after the taxable year during which the account was established.

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 holding 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 and credit;
3. the IRS Form 1099 issued by the financial institution for the account; and

4. if the account holder withdrew funds, (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 establishes a civil penalty, collectible by the DRS commissioner, of 10% of the withdrawn amount for an account holder who withdraws account funds 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. If the account holder deducted these withdrawn funds for state income tax purposes, the withdrawn funds are considered income.

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

1. the account holder did not claim the funds for a state income tax deduction,

2. the withdrawn funds were subsequently deposited in another program account,

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

To implement the deduction and credit, the bill requires the DRS commissioner to prepare forms to:

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

2. 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 authorizes the DRS commissioner to require that financial institutions provide certain unspecified information about each first-time homebuyer account. However, it 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.

Additionally, 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; or
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 BENEFIT — INDIVIDUAL DEDUCTION

Beginning with the 2026 tax year, the bill establishes three tax deductions for first-time homebuyer account holders for (1) qualifying contributions, (2) accrued interest, and (3) withdrawals. The deductions apply only to the extent the income is included in the taxpayer's federal AGI.

Income Thresholds

To qualify for the deductions, account holders must meet the following income thresholds:

1. for single filers (i.e., unmarried individuals, married individuals filing separately, and heads of household), a federal AGI of less than $100,000 and
2. for joint filers, a federal AGI of less than $200,000.

Deduction Amounts

Contributions. The bill establishes a deduction for contributions that 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 2026 tax year, account holders may deduct the amount contributed (less withdrawals) for both the 2025 and 2026 tax years, so allowing an aggregate deduction of up to $5,000 for single filers and $10,000 for joint filers.

Accrued Interest. The bill allows account holders to deduct the total interest accrued on their accounts during each tax year.

Qualified Beneficiary Deduction. For an account holder who is a qualified beneficiary, the bill establishes a tax deduction 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).

TAX BENEFIT — EMPLOYER CREDIT

Beginning with the 2026 tax year, the bill establishes a business tax credit for employers that contribute to a current employee's first-time homebuyer savings account (against the corporation business tax or income tax and excluding withholding taxes). The bill sets the annual credit amount at 10% of the employer's contributions to the accounts of its employees, but it cannot exceed $2,500 for any specific employee. (Corresponding with the bill's individual deductions, the 2026 taxable income year includes contributions made during 2025 and 2026.)

Under the bill, if the employer is an S corporation or a partnership for federal income tax purposes, the employer's shareholders or partners may claim the credit. For a single-member limited liability company that is disregarded as an entity separate from its owner, the owner may claim the credit if he or she is subject to business corporation or income tax. Claimers of the credit must provide DRS documentation that supports their claim, as the commissioner requires.

COMMITTEE ACTION

Banking Committee

Joint Favorable Substitute
Yea 12 Nay 0 (03/12/2024)