

**House Study Bill 234 - Introduced**

HOUSE FILE \_\_\_\_\_  
BY (PROPOSED COMMITTEE ON  
WAYS AND MEANS BILL BY  
CHAIRPERSON SANDS)

**A BILL FOR**

1 An Act providing for the creation of first-time homebuyer  
2 savings accounts in Iowa, including related individual  
3 income tax exemptions, making penalties applicable, and  
4 including effective date and applicability provisions.  
5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. NEW SECTION. 12I.1 Short title.

2 This chapter may be cited as the "*Iowa First-time Homebuyer*  
3 *Savings Account Act*".

4 Sec. 2. NEW SECTION. 12I.2 Definitions.

5 As used in this chapter, unless the context otherwise  
6 requires:

7 1. "*Account holder*" means a first-time homebuyer who is a  
8 resident of this state and who establishes, either individually  
9 or jointly with the resident's spouse who is also a first-time  
10 homebuyer, a first-time homebuyer savings account. A person  
11 ceases to be an account holder following the purchase of a  
12 principal residence after the establishment of a first-time  
13 homebuyer savings account.

14 2. "*Business day*" means a day other than a Saturday, Sunday,  
15 or federal holiday.

16 3. "*Eligible costs*" means the down payment and allowable  
17 closing costs for the purchase of a principal residence in Iowa  
18 which principal residence is purchased after the establishment  
19 of the first-time homebuyer savings account.

20 4. "*First-time homebuyer*" means an individual who has never  
21 owned or purchased under contract for deed, either individually  
22 or jointly, a single-family, owner-occupied residence,  
23 including but not limited to a manufactured or mobile home that  
24 is assessed and taxed as real estate or taxed under chapter  
25 435 or taxed under other similar law of another state, or a  
26 condominium unit.

27 5. "*First-time homebuyer savings account*" means an account  
28 established with a state or federally chartered bank, savings  
29 and loan association, credit union, or trust company in this  
30 state to finance the purchase of a principal residence in this  
31 state.

32 6. "*Principal residence*" means a single-family,  
33 owner-occupied residence in the state that will be the  
34 principal place of residence of the account holder, whether  
35 owned or purchased under contract for deed by the account

1 holder, individually or jointly. "Principal residence" includes  
2 but is not limited to a manufactured home or mobile home that  
3 is assessed and taxed as real estate or taxed under chapter  
4 435, and a condominium unit.

5 7. "Resident" means the same as defined in section 422.4.

6 Sec. 3. NEW SECTION. 12I.3 First-time homebuyer savings  
7 account.

8 1. *Establishment.*

9 a. A first-time homebuyer who is a resident of this  
10 state may establish, either individually or jointly with  
11 the resident's spouse who is also a first-time homebuyer, a  
12 first-time homebuyer savings account to finance the purchase  
13 of a principal residence. Married taxpayers electing to file  
14 separate tax returns or separately on a combined tax return  
15 shall not establish or maintain a joint first-time homebuyer  
16 savings account.

17 b. The account holder who establishes the first-time  
18 homebuyer savings account, individually or jointly, is the  
19 owner and administrator of the account.

20 c. A first-time homebuyer savings account shall be an  
21 interest-bearing savings account.

22 d. A financial institution shall not be responsible for  
23 the use or application of funds within a first-time homebuyer  
24 savings account solely because the account is held at that  
25 financial institution.

26 2. *Use and administration by account holder.*

27 a. The account holder shall use the money in the first-time  
28 homebuyer savings account for eligible costs related to the  
29 purchase of a principal residence within ten years following  
30 the year in which the account is first established.

31 b. An account holder shall not contribute to a first-time  
32 homebuyer savings account for a period exceeding ten years.

33 c. There is no limitation on the amount of contributions  
34 that may be made to or retained in a first-time homebuyer  
35 savings account.

1     *d.* The account holder shall not use funds held in a  
2 first-time homebuyer savings account to pay expenses, if any,  
3 of administering the account, other than to the financial  
4 institution where the account is held for expenses or costs  
5 related to maintaining the account.

6     *e.* Documentation regarding the segregation of funds in  
7 a first-time homebuyer savings account from other funds and  
8 documentation regarding eligible costs for the purchase of a  
9 principal residence shall be maintained by the account holder.  
10 The burden of proving that a withdrawal from a first-time  
11 homebuyer savings account was made for eligible costs is upon  
12 the account holder.

13     *f.* Within thirty days of being furnished proof of death  
14 of the account holder, the financial institution where  
15 the first-time homebuyer savings account is held shall  
16 distribute any amount remaining in the first-time homebuyer  
17 savings account to the estate of the account holder or to a  
18 transfer on death or pay on death beneficiary of the account  
19 properly designated by the account holder with the financial  
20 institution. A financial institution shall not be held liable  
21 by an account holder, the director of revenue, or the treasurer  
22 of state for the payment of tax or for any other claim relating  
23 to distributions or withdrawals from a first-time homebuyer  
24 savings account pursuant to this section.

25     *g.* The account holder shall file reports with the department  
26 of revenue as reasonably required by the department of revenue.

27     *h.* The account holder is required to remit the withdrawal  
28 penalty in section 422.7, subsection 57, paragraph "c", if  
29 assessed, to the department of revenue in the same manner as  
30 provided in section 422.16, subsection 2.

31     3. *Penalties.* A person who knowingly prepares or causes to  
32 be prepared a false claim, statement, or billing to justify the  
33 withdrawal of money from a first-time homebuyer savings account  
34 is guilty of a serious misdemeanor for each violation.

35     Sec. 4. NEW SECTION. **12I.4 Tax considerations.**

1 The state income tax treatment of a first-time homebuyer  
2 savings account shall be as provided in section 422.7,  
3 subsection 57.

4 Sec. 5. NEW SECTION. 12I.5 Rules.

5 The director of revenue shall adopt rules to implement and  
6 administer this chapter.

7 Sec. 6. Section 422.7, Code 2015, is amended by adding the  
8 following new subsection:

9 NEW SUBSECTION. 57. a. Subtract the amount of  
10 contributions made by an account holder to the account holder's  
11 first-time homebuyer savings account during the tax year, not  
12 to exceed three thousand dollars per individual per tax year,  
13 or six thousand dollars per tax year for a married couple who  
14 have a joint first-time homebuyer savings account and file a  
15 joint return. An amount of contributions made during a tax  
16 year in excess of three thousand dollars, or six thousand  
17 dollars, as applicable, may be subtracted by an account holder  
18 in a subsequent tax year, provided the total exemption under  
19 this paragraph for the subsequent tax year does not exceed  
20 three thousand dollars, or six thousand dollars, as applicable.  
21 This paragraph shall not apply to an account holder more  
22 than ten years after the account holder first establishes a  
23 first-time homebuyer savings account.

24 b. Subtract, to the extent included, income from interest  
25 and earnings received from an account holder's first-time  
26 homebuyer savings account. This paragraph "b" shall not apply  
27 to any interest and earnings received by an account holder more  
28 than ten years after the account holder first establishes a  
29 first-time homebuyer savings account.

30 c. (1) Add, to the extent previously subtracted under  
31 paragraph "a", the amount resulting from a withdrawal made from  
32 a first-time homebuyer savings account for purposes other than  
33 the payment of eligible costs of the account holder. If the  
34 withdrawal is made on a day other than the last business day  
35 of the calendar year, such withdrawal shall also be assessed a

1 penalty in an amount equal to ten percent of the amount of the  
2 withdrawal. The penalty shall not apply to withdrawals made on  
3 account of the death of the account holder.

4 (2) For purposes of this paragraph "c", any amount remaining  
5 in a first-time homebuyer savings account of an account holder  
6 on the day after the purchase of a principal residence or the  
7 last business day of the tenth calendar year following the  
8 calendar year in which the account holder first establishes a  
9 first-time homebuyer savings account, whichever occurs first,  
10 shall be considered a withdrawal under subparagraph (1).

11 (3) For purposes of this paragraph "c", the following shall  
12 not be considered a withdrawal under subparagraph (1):

13 (a) Any amount transferred between different first-time  
14 homebuyer savings accounts of the same account holder by a  
15 person other than the account holder.

16 (b) Any amounts withdrawn or otherwise transferred from a  
17 first-time homebuyer savings account pursuant to an order in  
18 bankruptcy.

19 d. For purposes of this subsection, "account holder",  
20 "business day", "eligible costs", and "first-time homebuyer  
21 savings account" all mean the same as defined in section 12I.2.

22 Sec. 7. EFFECTIVE DATE. This Act takes effect January 1,  
23 2016.

24 Sec. 8. APPLICABILITY. This Act applies to tax years  
25 beginning on or after January 1, 2016.

26 EXPLANATION

27 The inclusion of this explanation does not constitute agreement with  
28 the explanation's substance by the members of the general assembly.

29 This bill allows first-time homebuyers who are residents  
30 of Iowa to establish a first-time homebuyer savings account  
31 (account) with a state or federally chartered bank, savings and  
32 loan association, credit union, or trust company in this state  
33 to finance the purchase of a principal residence in this state.  
34 "First-time homebuyer" and "principal residence" are defined in  
35 the bill. The account is required to be an interest-bearing

1 savings account. The account may be established individually  
2 or jointly with the resident's spouse. However, married  
3 taxpayers electing to file separate tax returns or separately  
4 on a combined tax return shall not establish or maintain a  
5 joint account.

6 There is no limitation on the amount of contributions that  
7 may be made to or retained in a first-time homebuyer savings  
8 account. An account holder is required to use the funds in  
9 an account for eligible costs related to the purchase of a  
10 principal residence within 10 years following the year in which  
11 the account is first established.

12 "Eligible costs" are defined in the bill and include the down  
13 payment and allowable closing costs of a principal residence  
14 that was purchased after the establishment of the account. If  
15 the account holder withdraws funds for any purpose other than  
16 the payment of eligible costs, the account holder is subject  
17 to a penalty equal to 10 percent of the withdrawal, unless the  
18 withdrawal occurs on the last business day of the calendar year  
19 or was because of the death of the account holder. The penalty  
20 amounts are required to be remitted by the account holder to  
21 the department of revenue in the same manner as Code section  
22 422.16(2), relating to the withholding of income tax. A person  
23 ceases to be an account holder following the purchase of a  
24 principal residence after the establishment of an account.

25 Accounts are required to be administered by the account  
26 holder. The bill prohibits the account holder from using  
27 account funds to pay administrative expenses of the account  
28 other than to the financial institution where the account is  
29 held for expenses or costs related to maintaining the account.  
30 Documentation regarding the segregation of funds in the account  
31 from other funds and documentation regarding eligible costs  
32 shall be maintained by the account holder. The bill also  
33 requires the account holder to file reports as required by the  
34 department of revenue. Within 30 days of being furnished proof  
35 of death of the account holder, the financial institution where

1 the account is held shall distribute the funds to the estate  
2 of the account holder or to a transfer on death or pay on death  
3 beneficiary properly designated by the account holder. The  
4 bill provides that a financial institution shall not be held  
5 liable to an account holder, the director of revenue, or the  
6 treasurer of state for the payment of tax or any other claim  
7 relating to distributions or withdrawals from an account.

8 The bill provides for two individual income tax incentives  
9 relating to first-time homebuyer savings accounts. First,  
10 an account holder is allowed to subtract from the individual  
11 income tax the amount of contributions made during the year  
12 to the account holder's account, not to exceed \$3,000 per  
13 individual, or \$6,000 for a married couple with a joint account  
14 and filing a joint income tax return. If the account holder  
15 contributes more than that amount, the excess may be subtracted  
16 in a subsequent tax year provided the total exemption in any  
17 one tax year does not exceed \$3,000 or \$6,000, as applicable.  
18 Second, the bill exempts any interest or earnings received from  
19 an account holder's account. Both the contribution exemption  
20 and interest exemption only apply for the first 10 years after  
21 the account holder establishes an account.

22 The bill requires an account holder to add to net income the  
23 amount of withdrawal from an account that was made for purposes  
24 other than eligible costs of the account holder to the extent  
25 it was previously subtracted as a contribution. Any amount  
26 remaining in an account on the day after an account holder  
27 purchases a principal residence or on the last business day of  
28 the 10th calendar year following the calendar year the account  
29 holder first establishes an account, whichever occurs first,  
30 shall be considered a withdrawal that must be added to net  
31 income to the extent it was previously subtracted. However,  
32 amounts transferred between different accounts of the same  
33 account holder by a person other than the account holder or  
34 amounts withdrawn pursuant to an order in bankruptcy shall not  
35 be considered withdrawals that must be added to net income.



1 The bill makes it a serious misdemeanor to knowingly prepare  
2 or cause to be prepared a false claim, statement, or billing  
3 to justify the withdrawal of money from a first-time homebuyer  
4 savings account. A serious misdemeanor is punishable by  
5 confinement for no more than one year and a fine of at least  
6 \$315 but not more than \$1,875.

7 The bill requires the director of revenue to adopt rules to  
8 implement and administer the bill.

9 The bill takes effect January 1, 2016, and applies to tax  
10 years beginning on or after that date.