

**Senate File 425 - Introduced**

SENATE FILE 425  
BY COMMITTEE ON STATE  
GOVERNMENT

(SUCCESSOR TO SSB 1056)

**A BILL FOR**

1 An Act providing for the establishment of first-time homebuyer  
2 savings accounts in Iowa, including related individual  
3 income tax exemptions, and including applicability  
4 provisions.

5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 422.7, Code 2017, is amended by adding  
2 the following new subsection:

3 NEW SUBSECTION. 41. *a.* Subject to the restrictions in  
4 paragraph "b", subtract the sum of the following amounts:

5 (1) The amount of contributions made by an account holder  
6 during the tax year to the account holder's first-time  
7 homebuyer savings accounts, not to exceed the following annual  
8 limit:

9 (a) (i) For married taxpayers who file a joint return and  
10 maintain a joint first-time homebuyer savings account, four  
11 thousand dollars.

12 (ii) For any other account holder, two thousand dollars.

13 (b) For the tax year beginning in the 2018 calendar year  
14 and for each subsequent tax year, the director shall multiply  
15 each dollar amount set forth in subparagraph subdivisions (i)  
16 and (ii) by the latest cumulative inflation factor, shall  
17 round off the resulting product to the nearest one dollar,  
18 and shall incorporate the result into the income tax forms  
19 and instructions for each tax year. For purposes of this  
20 subparagraph division, "*cumulative inflation factor*" means the  
21 product of the annual inflation factor for the 2018 calendar  
22 year and all annual inflation factors for subsequent calendar  
23 years as determined by section 422.4, subsection 1, paragraph  
24 "a". The cumulative inflation factor applies to all tax years  
25 beginning on or after January 1 of the calendar year for  
26 which the latest annual inflation factor has been determined.  
27 Notwithstanding any other provision, the annual inflation  
28 factor for the 2018 calendar year is one hundred percent.

29 (2) To the extent included, income from interest and  
30 earnings received from the account holder's first-time  
31 homebuyer savings accounts.

32 *b.* (1) The subtraction in paragraph "a" shall not exceed  
33 the following aggregate lifetime limit:

34 (a) For married taxpayers who file a joint return and  
35 maintain a joint first-time homebuyer savings account, an

1 amount equal to the product of the deductible amount determined  
2 for the year in paragraph "a", subparagraph (1), subparagraph  
3 division (a), subparagraph subdivision (i), multiplied by ten.

4 (b) For any other account holder, an amount equal to the  
5 product of the deductible amount determined for the year in  
6 paragraph "a", subparagraph (1), subparagraph division (a),  
7 subparagraph subdivision (ii), multiplied by ten.

8 (2) The subtraction in paragraph "a" shall not be allowed to  
9 an account holder upon one of the following dates, whichever  
10 occurs first:

11 (a) January 1 of the tenth calendar year after the calendar  
12 year during which the account holder first opened a first-time  
13 homebuyer savings account.

14 (b) The date on which funds within an account holder's  
15 first-time homebuyer savings account are withdrawn for purposes  
16 other than the payment or reimbursement of the designated  
17 beneficiary's eligible home costs in connection with a  
18 qualified home purchase. Any amount transferred between  
19 different first-time homebuyer savings accounts of the same  
20 account holder by a person other than the account holder  
21 shall not be considered a withdrawal for purposes of this  
22 subparagraph division (b).

23 c. (1) Add, to the extent previously deducted under  
24 paragraph "a", subparagraph (1), the amount withdrawn during  
25 the tax year from an account holder's first-time homebuyer  
26 savings account for purposes other than the payment or  
27 reimbursement of the designated beneficiary's eligible home  
28 costs in connection with a qualified home purchase.

29 (2) For purposes of this paragraph "c", any amount remaining  
30 in an account holder's first-time homebuyer savings account  
31 on January 1 of the tenth calendar year after the calendar  
32 year during which the account holder first opened a first-time  
33 homebuyer savings account shall be considered immediately  
34 withdrawn under subparagraph (1).

35 (3) For purposes of this paragraph "c", the transfer of

1 amounts between different first-time homebuyer accounts of the  
2 same account holder by a person other than the account holder  
3 shall not cause such transfer to be considered a withdrawal  
4 under subparagraph (1).

5 *d.* For any amount considered a withdrawal required to be  
6 added to net income pursuant to paragraph "c", the account  
7 holder shall be assessed a penalty equal to ten percent of  
8 the amount of the withdrawal. The penalty shall not apply  
9 to withdrawals made by reason of the death or disability of  
10 the account holder, or to withdrawals made pursuant to a  
11 garnishment, levy, or other order, including but not limited to  
12 an order in bankruptcy following a filing for protection under  
13 the federal bankruptcy code, 11 U.S.C. §101 et seq.

14 *e.* For purposes of this subsection, "account holder",  
15 "designated beneficiary", "eligible home costs", "first-time  
16 homebuyer savings account", and "qualified home purchase" mean  
17 the same as defined in section 541B.2.

18 Sec. 2. Section 422.9, subsection 2, Code 2017, is amended  
19 by adding the following new paragraph:

20 NEW PARAGRAPH. *k.* Subtract interest, taxes, and other  
21 miscellaneous expenses deductible for federal income tax  
22 purposes to the extent such amounts are eligible home costs  
23 in connection with a qualified home purchase that were paid  
24 or reimbursed from funds in a first-time homebuyer savings  
25 account. For purposes of this paragraph, "eligible home costs",  
26 "first-time homebuyer savings account", and "qualified home  
27 purchase" mean the same as defined in section 541B.2.

28 Sec. 3. NEW SECTION. 541B.1 Short title.

29 This chapter may be cited as the "Iowa First-Time Homebuyer  
30 Savings Account Act".

31 Sec. 4. NEW SECTION. 541B.2 Definitions.

32 As used in this chapter, unless the context otherwise  
33 requires:

34 1. "Account holder" means an individual who establishes,  
35 either individually or jointly with the individual's spouse,

1 a first-time homebuyer savings account pursuant to section  
2 541B.3.

3 2. "*Department*" means the department of revenue.

4 3. "*Designated beneficiary*" means an individual meeting the  
5 requirements of section 541B.3, subsection 2, and designated  
6 by an account holder as beneficiary of the account holder's  
7 first-time homebuyer savings account pursuant to section  
8 541B.3, subsection 2.

9 4. a. "*Eligible home costs*" means the following:

10 (1) The down payment for the purchase of a single-family  
11 residence in Iowa by a designated beneficiary.

12 (2) A cost, fee, tax, or payment incurred by, or charged  
13 or assigned to, a designated beneficiary for the purchase of a  
14 single-family residence in Iowa, and listed on the statement  
15 of receipts and disbursements for the sale, including any  
16 statement prescribed by 12 C.F.R. §1026.38, as amended.

17 b. "*Eligible home costs*" includes any United States veterans  
18 administration funding fee incurred by, or charged or assigned  
19 to, a designated beneficiary in connection with a veterans  
20 administration home loan guaranty program.

21 5. "*Financial institution*" means a state or federally  
22 chartered bank, savings and loan association, credit union, or  
23 trust company in this state.

24 6. "*First-time homebuyer*" means an individual who is a  
25 resident of Iowa and who has not owned or purchased, either  
26 individually or jointly, a single-family residence for a period  
27 of three years prior to the date of the qualified home purchase  
28 for which the eligible home costs are paid or reimbursed from a  
29 first-time homebuyer savings account.

30 7. "*First-time homebuyer savings account*" means an account  
31 that meets the requirements of sections 541B.3 and 541B.4 and  
32 that was established for the purpose of paying or reimbursing a  
33 qualified beneficiary's eligible home costs in connection with  
34 a qualified home purchase.

35 8. "*Individual*" means a natural person.

1 9. "Qualified home purchase" means, with respect to a  
2 first-time homebuyer savings account, the purchase of a  
3 single-family residence in Iowa by the account's designated  
4 beneficiary after the date the account holder first opened a  
5 first-time homebuyer savings account.

6 10. "Resident" means the same as defined in section 422.4.

7 11. "Single-family residence" means a single-family  
8 residence owned and occupied by a designated beneficiary as the  
9 designated beneficiary's principal residence, including but not  
10 limited to a manufactured home, mobile home, condominium unit,  
11 or cooperative.

12 Sec. 5. NEW SECTION. 541B.3 First-time homebuyer savings  
13 account.

14 1. *Establishment of account.*

15 a. Beginning January 1, 2018, an individual may open an  
16 interest-bearing savings account with a financial institution  
17 and designate the entire account as a first-time homebuyer  
18 savings account for the purpose of paying or reimbursing a  
19 designated beneficiary's eligible home costs in connection with  
20 a qualified home purchase. The first-time homebuyer savings  
21 account designation shall be made no later than April 30 of the  
22 year following the tax year during which the account is opened,  
23 on forms provided by the department.

24 b. A married couple electing to file a joint Iowa individual  
25 income tax return may establish a joint first-time homebuyer  
26 savings account. Married taxpayers electing to file separate  
27 tax returns or separately on a combined tax return for Iowa tax  
28 purposes shall not establish or maintain a joint first-time  
29 homebuyer savings account.

30 c. An individual may establish more than one first-time  
31 homebuyer savings account, provided each account has a  
32 different designated beneficiary.

33 2. *Designation of beneficiary.*

34 a. The account holder shall designate one individual as  
35 beneficiary of the first-time homebuyer savings account. The

1 designation shall be made on forms provided by the department  
2 and no later than April 30 of the year following the tax year  
3 during which the account is opened. The account holder may  
4 change the designated beneficiary of the first-time homebuyer  
5 savings account at any time.

6 *b.* The account holder and designated beneficiary of  
7 a first-time homebuyer savings account may be the same  
8 individual.

9 *c.* An individual may be the designated beneficiary of more  
10 than one first-time homebuyer savings account.

11 *d.* The designated beneficiary of a first-time homebuyer  
12 savings account must be a first-time homebuyer.

13 **Sec. 6. NEW SECTION. 541B.4 Account administration —**  
14 **account holder responsibilities.**

15 1. *Account contributions.* Contributions to a first-time  
16 homebuyer savings account may be made by any person in the form  
17 of cash. There is no limitation on the amount of contributions  
18 that may be made to or retained in a first-time homebuyer  
19 savings account.

20 2. *Account expenses.* The account holder shall not use funds  
21 held in a first-time homebuyer savings account to pay expenses,  
22 if any, of administering the account, except that all fees and  
23 charges assessed by the financial institution may be deducted  
24 from the account by the financial institution where the account  
25 is held.

26 3. *Required reports.* The account holder shall submit the  
27 following information to the department:

28 *a.* An annual report for the first-time homebuyer savings  
29 account on forms furnished by the department. The report shall  
30 be included with the Iowa income tax return of the account  
31 holder.

32 *b.* A copy of the federal internal revenue service form  
33 1099, or other similar federal internal revenue service income  
34 reporting form, if any, issued for the first-time homebuyer  
35 savings account to the account holder by the financial

1 institution where the account is held. The form shall be  
2 included with the Iowa income tax return of the account holder.

3 *c.* Upon a withdrawal of funds from a first-time homebuyer  
4 savings account, a transaction report on forms furnished by the  
5 department.

6 4. *Withdrawal of funds.* The account holder may withdraw  
7 funds from a first-time homebuyer savings account at any time.

8 Sec. 7. NEW SECTION. 541B.5 **Financial institution**  
9 **protections.**

10 Nothing in this chapter shall be construed to require a  
11 financial institution to do any of the following, or to be  
12 responsible or liable for any of the following:

13 1. Designate or label within the financial institution's  
14 account contracts, systems, or in any other manner, an account  
15 as a first-time homebuyer savings account.

16 2. Ascertain or verify the purpose of a withdrawal of funds  
17 from a first-time homebuyer savings account, or track the  
18 destination or use of the withdrawn funds.

19 3. Allocate funds in a first-time homebuyer savings account  
20 to a designated beneficiary or among joint account holders.

21 4. Report any information to the department or any other  
22 governmental agency.

23 5. Determine or ensure that an account satisfies the  
24 requirements to be a first-time homebuyer savings account.

25 6. Determine or ensure that funds withdrawn from a  
26 first-time homebuyer savings account are used for the payment  
27 or reimbursement of a designated beneficiary's eligible home  
28 costs in connection with a qualified home purchase.

29 7. Report or remit taxes or penalties related to the  
30 ownership or use of a first-time homebuyer savings account.

31 8. Include the name of a beneficiary in the title of a  
32 first-time homebuyer savings account, or document the change of  
33 any beneficiary to a first-time homebuyer savings account.

34 Sec. 8. NEW SECTION. 541B.6 **Tax considerations.**

35 The state income tax treatment of a first-time homebuyer



1 savings account shall be as provided in section 422.7,  
2 subsection 41, and section 422.9, subsection 2, paragraph "k".

3 **Sec. 9. NEW SECTION. 541B.7 Rules and forms.**

4 1. The department shall adopt rules to implement and  
5 administer this chapter.

6 2. The department shall create and make available forms  
7 to be used in complying with this chapter, including but not  
8 limited to the following:

9 a. A form for designating an account as a first-time  
10 homebuyer savings account pursuant to section 541B.3,  
11 subsection 1, paragraph "a".

12 b. A form for designating an individual as beneficiary of  
13 a first-time homebuyer savings account pursuant to section  
14 541B.3, subsection 2, paragraph "a".

15 c. A first-time homebuyer savings account annual report  
16 as required in section 541B.4, subsection 3, paragraph "a".  
17 The report shall require, at a minimum, a list of transactions  
18 occurring on the account during the tax year, and shall  
19 identify any supporting documentation to be included with the  
20 report or maintained by the taxpayer.

21 d. A transaction report as required in section 541B.4,  
22 subsection 3, paragraph "c", which report shall require, at a  
23 minimum, information regarding the eligible home costs to which  
24 any withdrawn funds were applied in connection with a qualified  
25 home purchase, and information regarding the amount of funds  
26 remaining, if any, in a first-time homebuyer savings account.

27 **Sec. 10. APPLICABILITY.** The following provision or  
28 provisions of this Act apply to tax years beginning on or after  
29 January 1, 2018:

30 1. The section of this Act enacting section 422.7,  
31 subsection 41.

32 2. The section of this Act enacting section 422.9,  
33 subsection 2, paragraph "k".

34 **EXPLANATION**

35 The inclusion of this explanation does not constitute agreement with

1 the explanation's substance by the members of the general assembly.

2 This bill allows individuals, on or after January 1, 2018,  
3 to open an interest-bearing savings account with a state  
4 or federally chartered bank, savings and loan association,  
5 credit union, or trust company in this state and designate the  
6 account as a first-time homebuyer savings account (account)  
7 for the purpose of financing the purchase of a single-family  
8 residence in this state by a first-time homebuyer. "First-time  
9 homebuyer" is defined in the bill to include Iowa residents who  
10 have not owned a single-family residence for at least three  
11 years prior to the home purchase for which the account's funds  
12 are applied. "Single-family residence" is also defined in the  
13 bill. The account may be established individually, or jointly  
14 with a spouse if the married couple files a joint Iowa income  
15 tax return.

16 In order to properly establish the account, the bill  
17 requires the account holder to submit certain forms to the  
18 department of revenue (department) designating the account as  
19 a first-time homebuyer savings account, and designating one  
20 beneficiary of the account (designated beneficiary). These  
21 designation forms must be submitted no later than April 30 of  
22 the year following the tax year during which the account is  
23 opened. An individual may establish more than one account,  
24 provided each account has a different designated beneficiary.  
25 The account holder may change the designated beneficiary at any  
26 time, and may designate himself or herself as the beneficiary.  
27 In addition, an individual may be the designated beneficiary  
28 of more than one account. The designated beneficiary must be  
29 a first-time homebuyer.

30 Contributions to an account may be made in the form of cash  
31 by any person and in any amount. There is no limitation on the  
32 amount that may be retained in an account. In addition, the  
33 account holder may withdraw funds from an account at any time.  
34 Account funds shall not be used to pay expenses, if any, of  
35 administering the account, except that fees and charges may be

1 deducted from the account by the financial institution where  
2 the account is held. The bill requires an account holder to  
3 submit certain reports to the department, including an annual  
4 report for the account, a transaction report upon a withdrawal  
5 of funds from the account, and a copy of any federal Internal  
6 Revenue Service form 1099 or other similar income statement  
7 issued for the account.

8 The bill provides protection to financial institutions from  
9 being required to perform, and from being responsible or liable  
10 for, certain activities as described in the bill with respect  
11 to accounts. The bill requires the department to create the  
12 forms required to be filed by account holders, and to adopt  
13 rules to implement and administer the bill.

14 The bill provides two individual income tax incentives  
15 relating to the accounts. First, an account holder is  
16 allowed to deduct from the individual income tax the amount of  
17 contributions made during the year by the account holder to  
18 the account holder's accounts, not to exceed \$2,000 per year,  
19 or \$4,000 for married taxpayers with a joint account. These  
20 amounts are adjusted for inflation each calendar year. Second,  
21 the bill exempts from the individual income tax any interest  
22 or earnings received from the account holder's accounts.  
23 The total amount that may be deducted or excluded from the  
24 individual income tax for these two tax incentives cannot  
25 exceed an aggregate lifetime limit of 10 times the maximum  
26 deduction determined above for the applicable year (\$20,000 for  
27 2016), or double that amount for married taxpayers with a joint  
28 account (\$40,000 for 2016). The account holder's ability to  
29 claim the tax incentives ends 10 tax years after the tax year  
30 the account holder first opened an account, or on the date when  
31 account funds are withdrawn for purposes other than the payment  
32 or reimbursement of the designated beneficiary's eligible  
33 home costs in connection with a qualified home purchase  
34 (nonqualified withdrawal), whichever occurs first. "Eligible  
35 home costs" and "qualified home purchase" are both defined in

1 the bill. Amounts transferred between different accounts of  
2 the same account holder by a person other than the account  
3 holder are not considered a nonqualified withdrawal that would  
4 cause loss of the ability to claim the tax incentives.

5 The bill requires an account holder to add to net income for  
6 purposes of calculating the individual income tax any amount of  
7 a nonqualified withdrawal from an account to the extent it was  
8 previously deducted as a contribution, but amounts transferred  
9 between different accounts of the same account holder by  
10 a person other than the account holder are not considered  
11 nonqualified withdrawals. In addition, any amount remaining in  
12 an account holder's account on January 1 of the 10th calendar  
13 year after the calendar year during which the account holder  
14 first opened an account is considered to be a nonqualified  
15 withdrawal that must be added to net income for the tax year  
16 beginning in that 10th year, to the extent it was previously  
17 deducted as a contribution. Nonqualified withdrawals required  
18 to be added to net income are also subject to a penalty equal  
19 to 10 percent of the nonqualified withdrawal, unless the  
20 withdrawal was made by reason of the death or disability of the  
21 account holder, or was made pursuant to a garnishment, levy,  
22 or other order, including an order in bankruptcy following a  
23 filing for protection under the federal bankruptcy code.

24 Finally, the bill prohibits the amount of eligible home  
25 costs in connection with a qualified home purchase that are  
26 paid or reimbursed from funds in an account from being allowed  
27 as an itemized deduction for Iowa individual income tax  
28 purposes.

29 The tax provisions of the bill apply to tax years beginning  
30 on or after January 1, 2018.