

Senate File 505 - Introduced

SENATE FILE 505

BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO SF 425)

(SUCCESSOR TO SSB 1056)

(COMPANION TO HF 622 BY

COMMITTEE ON WAYS AND MEANS)

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 received
30 from the account holder's first-time homebuyer savings
31 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 of the account
10 holder, or to withdrawals made pursuant to a garnishment,
11 levy, or other order, including but not limited to an order in
12 bankruptcy following a filing for protection under the federal
13 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 does not own, either individually or
26 jointly, a single-family or multifamily residence, and who
27 has not owned or purchased, either individually or jointly, a
28 single-family or multifamily residence for a period of three
29 years prior to all of the following:

30 a. The date on which the individual is named as a designated
31 beneficiary of a first-time homebuyer savings account.

32 b. The date of the qualified home purchase for which the
33 eligible home costs are paid or reimbursed from a first-time
34 homebuyer savings account.

35 7. "*First-time homebuyer savings account*" means an account

1 that meets the requirements of sections 541B.3 and 541B.4 and
2 that was established for the purpose of paying or reimbursing a
3 designated beneficiary's eligible home costs in connection with
4 a qualified home purchase.

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

6 9. "*Qualified home purchase*" means, with respect to a
7 first-time homebuyer savings account, the purchase of a
8 single-family residence in Iowa by the account's designated
9 beneficiary ninety or more days after the date the account
10 holder first opened a first-time homebuyer savings account.

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

12 11. "*Single-family residence*" means a single-family
13 residence owned and occupied by a designated beneficiary as the
14 designated beneficiary's principal residence, including but not
15 limited to a manufactured home, mobile home, condominium unit,
16 or cooperative.

17 Sec. 5. NEW SECTION. 541B.3 **First-time homebuyer savings**
18 **account.**

19 1. *Establishment of account.*

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

29 b. A married couple electing to file a joint Iowa individual
30 income tax return may establish a joint first-time homebuyer
31 savings account. Married taxpayers electing to file separate
32 tax returns or separately on a combined tax return for Iowa tax
33 purposes shall not establish or maintain a joint first-time
34 homebuyer savings account.

35 c. An individual may establish more than one first-time

1 homebuyer savings account, provided each account has a
2 different designated beneficiary.

3 2. *Designation of beneficiary.*

4 a. The account holder shall designate one individual as
5 beneficiary of the first-time homebuyer savings account. The
6 designation shall be made on forms provided by the department
7 and no later than April 30 of the year following the tax year
8 during which the account is opened. The account holder may
9 change the designated beneficiary of the first-time homebuyer
10 savings account at any time.

11 b. The account holder and designated beneficiary of
12 a first-time homebuyer savings account may be the same
13 individual.

14 c. An individual may be the designated beneficiary of more
15 than one first-time homebuyer savings account.

16 d. The designated beneficiary of a first-time homebuyer
17 savings account must be a first-time homebuyer.

18 Sec. 6. NEW SECTION. 541B.4 **Account administration —**
19 **account holder responsibilities.**

20 1. *Account contributions.* Contributions to a first-time
21 homebuyer savings account may be made by any person in the form
22 of cash. There is no limitation on the amount of contributions
23 that may be made to or retained in a first-time homebuyer
24 savings account.

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

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

33 a. An annual report for the first-time homebuyer savings
34 account on forms furnished by the department. The report shall
35 be included with the Iowa income tax return of the account

1 holder.

2 *b.* A copy of the federal internal revenue service form
3 1099, or other similar federal internal revenue service income
4 reporting form, if any, issued for the first-time homebuyer
5 savings account to the account holder by the financial
6 institution where the account is held. The form shall be
7 included with the Iowa income tax return of the account holder.

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

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

13 Sec. 7. NEW SECTION. 541B.5 **Financial institution**
14 **protections.**

15 Nothing in this chapter shall be construed to require a
16 financial institution to do any of the following, or to be
17 responsible or liable for any of the following:

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

21 2. Ascertain or verify the purpose of a withdrawal of funds
22 from a first-time homebuyer savings account, or track the
23 destination or use of the withdrawn funds.

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

26 4. Report any information to the department or any other
27 governmental agency.

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

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

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

1 8. Include the name of a beneficiary in the title of a
2 first-time homebuyer savings account, or document the change of
3 any beneficiary to a first-time homebuyer savings account.

4 Sec. 8. NEW SECTION. 541B.6 Tax considerations.

5 The state income tax treatment of a first-time homebuyer
6 savings account shall be as provided in section 422.7,
7 subsection 41, and section 422.9, subsection 2, paragraph "k".

8 Sec. 9. NEW SECTION. 541B.7 Rules and forms.

9 1. The department shall adopt rules to implement and
10 administer this chapter.

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

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

17 b. A form for designating an individual as beneficiary of
18 a first-time homebuyer savings account pursuant to section
19 541B.3, subsection 2, paragraph "a".

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

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

32 Sec. 10. APPLICABILITY. The following provision or
33 provisions of this Act apply to tax years beginning on or after
34 January 1, 2018:

35 1. The section of this Act enacting section 422.7,

1 subsection 41.

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

4 EXPLANATION

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

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

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

1 of more than one account. The designated beneficiary must be
2 a first-time homebuyer.

3 Contributions to an account may be made in the form of cash
4 by any person and in any amount. There is no limitation on the
5 amount that may be retained in an account. In addition, the
6 account holder may withdraw funds from an account at any time.
7 Account funds shall not be used to pay expenses, if any, of
8 administering the account, except that fees and charges may be
9 deducted from the account by the financial institution where
10 the account is held. The bill requires an account holder to
11 submit certain reports to the department, including an annual
12 report for the account, a transaction report upon a withdrawal
13 of funds from the account, and a copy of any federal Internal
14 Revenue Service form 1099 or other similar income statement
15 issued for the account.

16 The bill provides protection to financial institutions from
17 being required to perform, and from being responsible or liable
18 for, certain activities as described in the bill with respect
19 to accounts. The bill requires the department to create the
20 forms required to be filed by account holders, and to adopt
21 rules to implement and administer the bill.

22 The bill provides two individual income tax incentives
23 relating to the accounts. First, an account holder is
24 allowed to deduct from the individual income tax the amount of
25 contributions made during the year by the account holder to
26 the account holder's accounts, not to exceed \$2,000 per year,
27 or \$4,000 for married taxpayers with a joint account. These
28 amounts are adjusted for inflation each calendar year. Second,
29 the bill exempts from the individual income tax any interest
30 received from the account holder's accounts. The total amount
31 that may be deducted or excluded from the individual income
32 tax for these two tax incentives cannot exceed an aggregate
33 lifetime limit of 10 times the maximum deduction determined
34 above for the applicable year (\$20,000 for 2016), or double
35 that amount for married taxpayers with a joint account (\$40,000

1 for 2016). The account holder's ability to claim the tax
2 incentives ends 10 tax years after the tax year the account
3 holder first opened an account, or on the date when account
4 funds are withdrawn for purposes other than the payment
5 or reimbursement of the designated beneficiary's eligible
6 home costs in connection with a qualified home purchase
7 (nonqualified withdrawal), whichever occurs first. "Eligible
8 home costs" and "qualified home purchase" are both defined
9 in the bill, and "qualified home purchase" requires that the
10 account be open for at least 90 days prior to the purchase.
11 Amounts transferred between different accounts of the same
12 account holder by a person other than the account holder are
13 not considered a nonqualified withdrawal that would cause loss
14 of the ability to claim the tax incentives.

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

34 Finally, the bill prohibits the amount of eligible home
35 costs in connection with a qualified home purchase that are

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1 paid or reimbursed from funds in an account from being allowed
2 as an itemized deduction for Iowa individual income tax
3 purposes.

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