

Senate Study Bill 1056 - Introduced

SENATE FILE _____
BY (PROPOSED COMMITTEE ON
STATE GOVERNMENT BILL BY
CHAIRPERSON SMITH)

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 to
9 withdrawals made by reason of the death or disability of the
10 account holder, or to withdrawals made pursuant to an order in
11 bankruptcy following a filing for protection under the federal
12 bankruptcy code, 11 U.S.C. §101 et seq.

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

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

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

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

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

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

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

33 1. "Account holder" means an individual who establishes,
34 either individually or jointly with the individual's spouse,
35 a first-time homebuyer savings account pursuant to section

1 541B.3.

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

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

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

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

11 (2) A cost, fee, tax, or payment incurred by, or charged
12 or assigned to, a designated beneficiary for the purchase of a
13 single-family residence in Iowa, and listed on the statement
14 of receipts and disbursements for the sale, including any
15 statement prescribed by the Real Estate Settlement Procedures
16 Act of 1974, 12 U.S.C., 2601 et seq., as amended, and
17 regulations promulgated thereunder.

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

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

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

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

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

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

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

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

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

15 1. *Establishment of account.*

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

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

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

34 2. *Designation of beneficiary.*

35 a. The account holder shall designate one individual as

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

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

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

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

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

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

21 2. *Account expenses.* The account holder shall not use funds
22 held in a first-time homebuyer savings account to pay expenses,
23 if any, of administering the account, except that a service fee
24 may be deducted from the account by the financial institution
25 where the account 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 Sec. 8. NEW SECTION. 541B.6 **Tax considerations.**

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

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

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

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

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

9 b. A form for designating an individual as beneficiary of
10 a first-time homebuyer savings account pursuant to section
11 541B.3, subsection 2, paragraph "a".

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

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

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

27 1. The section of this Act enacting section 422.7,
28 subsection 41.

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

31 EXPLANATION

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

34 This bill allows individuals, on or after January 1, 2018,
35 to open an interest-bearing savings account with a state

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

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

27 Contributions to an account may be made in the form of cash
28 by any person and in any amount. There is no limitation on
29 the amount that may be retained in an account. In addition,
30 the account holder may withdraw funds from an account at any
31 time. Account funds shall not be used to pay expenses, if any,
32 of administering the account, except that a service fee may be
33 deducted from the account by the financial institution where
34 the account is held. The bill requires an account holder to
35 submit certain reports to the department, including an annual

1 report for the account, a transaction report upon a withdrawal
2 of funds from the account, and a copy of any federal Internal
3 Revenue Service form 1099 or other similar income statement
4 issued for the account.

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

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

1 cause loss of the ability to claim the tax incentives.

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

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

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