HOUSE RESEARCH

Bill Summary

File Number: H.F. 1234 **Date:** March 2, 2017
Version: As introduced

Authors: Davids and others

Subject: First-time home buyer savings account program

Analyst: Nina Manzi, 651-296-5204
Joel Michael, joel.michael@house.mn

Overview

This bill establishes a first-time home buyer savings account program, administered by the Department of Revenue (DOR). Under this program, individuals could establish dedicated savings accounts to help buy a home for themselves or another qualified beneficiary; contributions to and interest earning on the accounts would be exempt from Minnesota income tax, if they were used for a down payment or closing costs on a home for the beneficiary. A first-time home buyer is someone who does not own or has not owned a residence in the last three years.

The program would become effective the day following enactment and, for income tax purposes, would apply beginning for tax year 2017.

Section

1 **Addition to FTI.** Provides an addition to federal taxable income (FTI) for distributions from a first-time home buyer account that are not used for an eligible purpose under section 10 or amounts remaining in an account at the end of the tenth taxable year after the account was opened.

2 **Subtraction from FTI.** Allows a subtraction from FTI for amounts contributed to and earnings on a first-time home buyer account. The maximum subtraction is limited to $7,500 ($15,000 for married joint filers) per year. If the taxpayer-contributor's adjusted gross income (AGI) exceeds $125,000 ($250,000 for married joint filers), the maximum subtraction is reduced by 25 percent of the amount of AGI over the threshold. The

Section

subtraction is fully phased out at $155,000 ($310,000 for married joint filers). The thresholds are indexed for inflation.

3 **Additional tax.** Adds a cross reference in the income tax calculation section for the additional ten percent tax on uses of the first-time home buyer savings accounts for other than eligible costs. This tax is imposed by section 10.

4 **Alternative minimum tax (AMT) exemption.** Provides an exemption from the AMT on individuals for the subtraction under section 2 for first-time home buyer savings account contributions and earnings.

5 **Citation.** Provides a name or citation for the new chapter of statutes proposed by the bill: The First-Time Home Buyer Savings Account Act.

6 **Definitions.** Defines terms used in the act, including:

- **Account holder** is the person establishing the account–this need not be the home buyer. For example, a parent could establish an account for a child and take the subtraction for contributions and earnings.
- **Commissioner** is the commissioner of DOR.
- **Eligible costs** are a down payment or closing costs (listed on the settlement statement) for a single family residence for a qualified beneficiary. They include paying construction costs if a new home is constructed, as well as purchasing an existing home.
- **Financial institution** includes banks, credit unions, savings banks, and similar institutions, as well as money market mutual funds.
- **First-time home buyer** is someone who does not own a principal residence for the three-year period ending on the earlier of: (1) the purchase of the home funded with the proceeds from the account; or (2) the end of last tax year in which a subtraction was claimed for the account. For a married couple, ownership interests of either spouse would count. Because ownership is for a principal residence, owning investment properties (e.g., a rental property) would not be disqualifying.
- **First-time home buyer savings account** is an account held in a financial institution that is designated by the account holder as a first-time home buyer savings account.
- **Principal residence** has the same meaning used in the capital gain exclusion under the federal income tax (Internal Revenue Code, section 121).
- **Qualified beneficiary** must be: (1) a Minnesota resident; (2) a first-time home buyer; and (3) designated as the beneficiary on the account.
- **Single-family residence** means a single-family residence located in Minnesota that is the first-time home-buyer's principal residence and may include a manufactured home, trailer, mobile home, condominium unit, townhome, or cooperative.

7 **Establishment of accounts.** Authorizes an individual to open a first-time home buyer account at a financial institution. A beneficiary must be designated (can be either the individual opening the account or someone else) by April 15 of the year after the account is

Section

opened. The beneficiary can be changed at any time, but this does not extend the ten-year limitation on an account's duration under section 10.

Although the bill does not explicitly provide a procedure for designating beneficiaries, it is apparent (based on section 9, which provides the financial institutions are not responsible) that designation is to be done through DOR. DOR is directed to establish a process for reporting on various aspects of the accounts.

Married individuals who file joint tax returns may own joint accounts. Accounts must have only one designated beneficiary, other than a married couple. An individual may own multiple accounts, but each must be for a separate beneficiary (i.e., no one can own multiple accounts for the same beneficiary).

Contributions to accounts must be made in cash.

8 **Account holder responsibilities.** Requires account holders to report to DOR:

- information on the account (to be specified by DOR under section 7, which directs DOR to establish reporting requirements);
- the eligible costs paid with amounts withdrawn from the accounts; and
- amounts remaining in the account after payment of eligible costs or at the end of the ten-year duration limit.

Account holders are allowed to transfer amounts from one first-time home buyer savings account to another designated first-time home buyer account, either at the same or a different financial institution. Deductions by financial institutions of service fees are permissible uses, but account holders are otherwise not permitted to use an account to pay for administering it.

9 **Financial institutions.** Clarifies that financial institutions have no statutory duties with respect to the accounts, such as designating accounts, tracking their use, reporting to the DOR (except as otherwise required by law), or otherwise ensuring that account holders are complying with the program requirements under the statute. These responsibilities will fall only on the account holders and the DOR.

10 **Subtraction; addition; additional tax.** Specifies the amounts qualifying for the subtraction from FTI under section 2, the addition to FTI under section 1, and the additional tax under section 3.

The **subtraction** equals the amount contributed to the account during the tax year, which cannot exceed $5,000 ($10,000 for married joint filers) and the interest or dividends earned on the account. Section 2 imposes higher total limits ($7,500 and $15,000), which apply to contributions to and earnings on all accounts.

The **addition** equals amounts withdrawn from an account during the tax year and not used for eligible costs and amounts remaining at the end of the tenth tax year after the account was opened. If amounts are transferred between two accounts, the ten-year period is calculated based on the shortest period that applies to either account.

A ten percent **additional tax** applies to withdrawals that are not used for eligible costs or on the amount remaining in the account at the end of the tenth taxable year after the account was

Section

opened. The additional tax does not apply to amounts remaining after the designated beneficiary's death or disability or amounts distributed through bankruptcy.

11 **Appropriation.** Appropriates unspecified amounts for fiscal years 2018 and 2019 to the DOR to administer the first-time home buyer savings account program.

12 **Tax expenditure purpose statements.** Provides an unspecified purpose and standard for evaluating the effectiveness for the program, as required by Minnesota Statutes, section 3.192.