

Senate File 505 - Enrolled

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AN ACT

PROVIDING FOR THE ESTABLISHMENT OF FIRST-TIME HOMEBUYER SAVINGS ACCOUNTS IN IOWA, INCLUDING RELATED INDIVIDUAL INCOME TAX EXEMPTIONS, AND INCLUDING APPLICABILITY PROVISIONS.

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

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

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

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

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

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

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

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

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

(a) For married taxpayers who file a joint return and maintain a joint first-time homebuyer savings account, an amount equal to the product of the deductible amount determined for the year in paragraph "a", subparagraph (1), subparagraph division (a), subparagraph subdivision (i), multiplied by ten.

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

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

(a) January 1 of the tenth calendar year after the calendar year during which the account holder first opened a first-time

homebuyer savings account.

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

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

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

(3) For purposes of this paragraph "c", the transfer of amounts between different first-time homebuyer accounts of the same account holder by a person other than the account holder shall not cause such transfer to be considered a withdrawal under subparagraph (1).

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

e. For purposes of this subsection, "account holder", "designated beneficiary", "eligible home costs", "first-time homebuyer savings account", and "qualified home purchase" mean

the same as defined in section 541B.2.

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

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

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

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

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

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

1. "*Account holder*" means an individual who establishes, either individually or jointly with the individual's spouse, a first-time homebuyer savings account pursuant to section 541B.3.

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

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

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

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

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

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

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

6. "*First-time homebuyer*" means an individual who is a resident of Iowa and who does not own, either individually or jointly, a single-family or multifamily residence, and who has not owned or purchased, either individually or jointly, a single-family or multifamily residence for a period of three years prior to all of the following:

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

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

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

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

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

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

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

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

1. *Establishment of account.*

a. Beginning January 1, 2018, an individual may open an interest-bearing savings account with a financial institution and designate the entire account as a first-time homebuyer savings account for the purpose of paying or reimbursing a designated beneficiary's eligible home costs in connection with

a qualified home purchase. The first-time homebuyer savings account designation shall be made no later than April 30 of the year following the tax year during which the account is opened, on forms provided by the department.

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

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

2. *Designation of beneficiary.*

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

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

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

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

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

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

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

from the account by the financial institution where the account is held.

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

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

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

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

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

Sec. 7. NEW SECTION. 541B.5 Financial institution protections.

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

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

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

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

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

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

6. Determine or ensure that funds withdrawn from a first-time homebuyer savings account are used for the payment or reimbursement of a designated beneficiary's eligible home

costs in connection with a qualified home purchase.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

JACK WHITVER
President of the Senate

LINDA UPMEYER
Speaker of the House

I hereby certify that this bill originated in the Senate and
is known as Senate File 505, Eighty-seventh General Assembly.

W. CHARLES SMITHSON
Secretary of the Senate

Approved _____, 2017

TERRY E. BRANSTAD
Governor