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An act relating to first-time home buyer savings accounts

It is hereby enacted by the General Assembly of the State of Vermont:

Sec. 1. FINDINGS AND INTENT

The General Assembly finds that saving for a down payment and closing costs for the purchase of a first home is challenging in the present economy. The first-time home buyer savings account program will provide opportunities for Vermonters to save funds for first-time or returning home ownership and will provide Vermonters with meaningful incentives to save for the purchase of a first home.

Sec. 2. DEFINITIONS

As used in Sec. 1 to 10 of this 2018 Act:

(1) “Account holder” means an individual who establishes, individually or jointly with 1 or more other individuals, an account with a financial institution for which the account holder claims a first-time home buyer savings account status on their income tax return.

(2) “Allowable closing costs” means disbursements listed on a settlement statement for the purchase by the account holder of an owner-occupied residence in the State of Vermont.

(3) “Eligible costs” means the down payment and allowable closing costs for the purchase of an owner-occupied residence by an account holder.

(4) “Financial institution” means a bank, a trust company, a commercial bank, a national bank, a savings bank, a savings and loan, a thrift institution, a credit union, an insurance company, a mutual fund, an investment firm, or a similar entity authorized to do business in this state.

(5) “First-time home buyer” means an individual who has not owned or purchased, either individually or jointly, an owner-occupied residence during a period of three years prior to the date of the purchase of a single-family residence.

(6) “First-time home buyer savings account” or “account” means an account with a financial institution that an account holder designates as a first-time home buyer savings account on the account holder’s Vermont income tax return pursuant to this act for the purpose of paying or reimbursing eligible costs for the purchase of an owner-occupied residence in this state by the account holder.

(7) “Settlement statement” means the statement of receipts and disbursements for a transaction related to real estate, including a statement prescribed under the Real Estate Settlement Procedures Act of 1974, 12 U.S.C. 2601 to 2617, or an executed sales agreement for the purchase of a manufactured home being conveyed as personal property.

(8) “Owner-occupied residence” means a residence intended for occupation of one to four units that is owned and occupied by an account holder as the account holder’s principal residence. “Owner-occupied residence” includes a manufactured home, residential trailer, mobile home, condominium unit, or cooperative.

(9) “Taxable income” has the meaning given that term in 32 V.S.A. § 5811(21).

(10) “Qualified withdrawal” means a withdrawal from an account that is not subject to penalty under this act or taxation under the income tax act of XX, and that is a withdrawal from an account that is made at least one (1) year after the account was opened and designated as a first-time home buyer savings account and the withdrawal is used to pay the eligible costs of the account holder incurred at least one year after the account is designated.

(10) “Department” means the Vermont State Department of Taxes

(11) “Commissioner” means the Commissioner of the Vermont Department of Taxes

Sec. 3. CREATION and EXISTANCE

(1) The first-time home buyer savings program is established in the Vermont Department of Taxes. Hereafter referred to as the “department.” The purposes, powers, and duties of the first-time home buyer savings program are vested in and shall be exercised by the commissioner or the designee of the commissioner.

(2) A qualified individual may create a first-time home buyer savings account with a financial institution and designate the account, in its entirety, as a first-time home buyer savings account to be used to pay or reimburse the account holder’s eligible costs related to the purchase of an owner-occupied residence in this state.

(3) A qualified individual may jointly own a first-time home buyer savings account with another person if the joint account holders are both first-time home buyers.

(4) An individual may not be the account holder of more than one first-time home buyer savings account.

(5) Only cash and marketable securities may be contributed to a first-time home buyer savings account. Subject to the limitations of Sec. 4 (4) of this Act, persons other than the account holder may contribute funds to a first-time home buyer savings account.

(6) The account holder may not use funds held in a first-time home buyer savings account to pay expenses of administering the account, except that the financial institution that administers the account may deduct a service fee from the account.

(7) An account holder may withdraw all or part of the funds from a first-time home buyer savings account and deposit the funds in a new first-time home buyer savings account held by a different financial institution or the same financial institution.

(8) An account holder shall submit, with the account holder's income tax return all of the following to the department along with the form prescribed by the department under subsection (TBD):

> (a) Account statements that show the contributions made during the tax year and the taxable interest or earnings on the account in the tax year for which the deduction is claimed.
> (b) The Form 1099 issued by the financial institution for the account for the tax year for which the deduction is claimed.
> (c) Upon withdrawal of funds from a first-time home buyer savings account, a copy of the real estate settlement statement that shows that the withdrawal was used for eligible costs.

(9) An account holder shall maintain and keep, for a period of at least four (4) years, suitable records and documentation, for their first-time home buyer savings account, including, but not limited to, account statements for all contributions and withdrawals made, a detailed list describing the transactions for the account, and other pertinent records and papers as required by the department for the administration of this act.

(10) The department shall prescribe the form and manner in which a taxpayer shall claim a deduction in accordance with this act on his or her income tax return. The form shall include, at minimum all of the following:

(a) The account holder's name.
(b) The name of the financial institution and the account number
(c) The beginning and end of the year balance of the account
(d) The amount of the deduction claimed for the tax year.

(11) The department may prepare and distribute informational materials on the Vermont first-time home buyer savings program to financial institutions and potential home buyers to publicize the availability of the program.

Sec. 4. DEPARTMENT OF TAXES RESPONSIBILITIES

The Department of Taxes shall create a means for designating the subtraction to which an account holder is entitled under Sections 4 and 5 of this Act in the individual state income tax return form required to be filed under XXX.

(1) On or before January 31 of each year, a financial institution at which an account holder has created a first-time home buyer savings account shall provide to the account holder a 1099 Form.

(2) A financial institution is not required to do any of the following:

(a) Designate an account as a first-time home buyer savings account in the financial institution's account contracts or systems or in any other way.

(b) Track the use of moneys withdrawn from a first-time home buyer savings account; or

(c) Allocate funds in a first-time home buyer savings account among joint account holders.

(d) Report any information to the department that is not otherwise required by law.

(3) A financial institution is not responsible or liable for any of the following:

(a) Determining or ensuring that an account satisfies the requirements to be a first-time home buyer savings account;

(b) Determining or ensuring that funds in a first-time home buyer savings account are used for eligible costs; or

(c) Reporting or remitting taxes or penalties related to the use of a first-time home buyer savings account.

(4) Upon being furnished proof of the death of the account holder and such other information required by the contract governing the first-time home buyer savings account, a financial institution shall distribute the principal and accumulated interest or other income in the first-time home buyer savings account in accordance with the terms of the contract governing the account.

Sec. 5. DEPARTMENT OF TAXES AUTHORITY

(1) The commissioner may promulgate rules to implement the program. The rules shall not apply to, or impose administrative, reporting, or other obligations or requirements on, financial institutions-related accounts for first-time home buyer savings accounts.

Sec. 6. STATE INCOME TAX

(1) The maximum account balance limit for a first-time home buyer savings account shall not exceed a maximum of $60,000.00. Accounts may continue to accrue earnings if the total balance has reached the maximum account balance limit and shall not be considered to have exceeded the maximum account balance under this subsection.
(2) Contributions to and interest earned on a first-time home buyer savings account are exempt from taxation as provided in section XX of the income tax act of XXX (cite here).
(3) Qualified withdrawals made from first-time home buyer savings account are exempt from taxation as provided in section XX of the income tax act of XXX (cite here).

(4) Subject to Sec. X of this Act, and in addition to the other modifications to state taxable income contained in 32 V.S.A. § 58??, there shall be subtracted from state taxable income the amount of funds contributed to an account holder's first-time home buyer savings account established under Sec. 1 to 10 of this Act during the tax year, not to exceed $5,000 for an account holder who files an individual income tax return or $10,000 for joint account holders who file a joint income tax return.

(5) An account holder may claim the subtraction and exemption under subsections (1) and (2) of this section:

(a) For a period not to exceed 10 years;

(b) For an aggregate total amount of principal and earnings not to exceed $60,000 during the 10-year period; and

(c) Only if the principal and earnings of the account remain in the account until a withdrawal is made for eligible costs related to the purchase of an owner-occupied residence by the account holder except as provided in Sec. 3 (6) of this Act.

(6) A person other than the account holder who deposits funds in a first-time home buyer savings account is not entitled to the subtraction and exemption provided for in this section.

(7) Moneys in a first-time home buyer savings account not expended on paying or reimbursing eligible costs for the purchase of a single-family residence by December 31 of the last year of the 10-year period described under subsection (3) of this section, shall thereafter be included in the account holder's taxable income.

Sec. 7. ELIGIBILITY AND LIMITS

(1) The limits applicable to a subtraction from state taxable income and an exemption allowed under Sec. X of this Act are:

(a) $10,000 if reported on a joint income tax return, or $5,000 for all others, if the state adjusted gross income of the taxpayer for the tax year is less than $150,000 or, if reported on other than a joint return, less than $75,000.

(b) $8,000 if reported on a joint income tax return, or $4,000 for all others, if the state adjusted gross income of the taxpayer for the tax year is $150,000 or more and less than $170,000 or, if reported on other than a joint return, less than $85,000.

Sec. 8. WITHDRAWALS

If an account holder withdraws funds from a first-time home buyer savings account for a purpose other than paying or reimbursing an account holder for eligible costs related to the purchase of an owner-occupied residence:

(1) The withdrawn funds must be included in the account holder's taxable income; and

(2) The account holder shall pay a penalty to the Department of Taxes equal to ten (10) percent of the amount withdrawn. The penalty does not apply to funds withdrawn from an account that were:

(a) Withdrawn by reason of the account holder's death or disability;

(b) A disbursement of assets of the account pursuant to a filing for protection under the United States Bankruptcy Code, 11 U.S.C. 101 et seq.; or

(c) Transferred from an account into another account established in accordance with Sec. 3 (6) of this Act.

Sec. 9. This Act takes effect on January 1, 2023.