FIRST-TIME HOMEBUYER SAVINGS ACCOUNTS

2017 Iowa Acts Senate File 505 authorizes first-time homebuyer savings accounts and related tax benefits. On or after January 1, 2018, an individual may establish a first-time homebuyer savings account by opening an interest-bearing savings account with a financial institution and designating the account as a first-time homebuyer savings account. The account holder must designate one individual as the beneficiary of the account. The designated beneficiary must be a first-time homebuyer. A married couple filing jointly may establish a joint first-time homebuyer savings account. An individual may establish more than one account as long as each account has a different designated beneficiary. An individual may be both the account holder and the designated beneficiary of the same account. An individual may also be the designated beneficiary of more than one account.

Beginning with tax year 2018, the account holder of a first-time homebuyer savings account may claim a deduction for Iowa individual income tax equal to the amount of contributions the holder made during the tax year to the holder's accounts. The deduction for contributions is subject to two limits. First, the deduction for contributions is subject to an annual deduction limit of $4,000 for married taxpayers filing a joint return and maintaining a joint first-time homebuyer savings account, and $2,000 for all other taxpayers. The annual deduction limits are adjusted annually for inflation, beginning in calendar year 2018. Second, the deduction for contributions is subject to a lifetime limit of ten times the account holder's annual deduction limit. Additionally, the account holder may deduct interest received from the account holder's first-time homebuyer savings accounts.

Deductions for a first-time homebuyer savings account are only available to an account holder until January 1 of the tenth calendar year after the calendar year in which the account holder opened the account, or until funds are withdrawn for a purpose other than to pay the designated beneficiary's qualifying home purchase expenses, whichever occurs first.

Any amount withdrawn from a first-time homebuyer savings account for a non-qualifying purpose during the tax year must be added to the account holder's Iowa net income for that year, to the extent the amount was previously deducted as a contribution. Any amount remaining in the account on January 1 of the tenth calendar year after the account was created is considered withdrawn for a non-qualifying purpose on that date. Any withdrawal that must be added to the account holder's net income is subject to a 10% penalty, unless the withdrawal was made due to death of the account holder or due to a garnishment, levy, or other order.

In calculating Iowa taxable income, a taxpayer must add back any amounts deducted at the federal level and paid or reimbursed for qualifying purposes from funds in a first-time homebuyer savings account.