



# House of Representatives

**File No. 780**

General Assembly

January Session, 2021

**(Reprint of File No. 66)**

Substitute House Bill No. 5027  
As Amended by House Amendment  
Schedule "A"

Approved by the Legislative Commissioner  
June 3, 2021

**AN ACT ESTABLISHING A FIRST-TIME HOMEBUYER SAVINGS ACCOUNT, ESTABLISHING TAX DEDUCTIONS FOR CONTRIBUTIONS TO FIRST-TIME HOMEBUYER SAVINGS ACCOUNTS AND THE WITHDRAWAL OF CERTAIN ELIGIBLE COSTS, DIRECTING THE TREASURER TO MAKE RECOMMENDATIONS CONCERNING MARKETABLE SECURITIES AND ESTABLISHING A FINANCIAL LITERACY TRUST FUND.**

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. (NEW) (*Effective January 1, 2022*) (a) For the purposes of this  
2 section:

3 (1) "Account holder" means an individual who, either individually or  
4 jointly with another individual, establishes a first-time homebuyer  
5 savings account;

6 (2) "Allowable closing costs" means the disbursements listed on a  
7 settlement statement concerning a transaction involving the purchase of  
8 a single-family residence in this state by a qualified beneficiary to serve

9 as the qualified beneficiary's primary residence;

10 (3) "Commissioner" means the Commissioner of Revenue Services;

11 (4) "Eligible costs" means the down payment and all allowable closing  
12 costs paid or reimbursed by a qualified beneficiary to purchase a single-  
13 family residence in this state to serve as the qualified beneficiary's  
14 primary residence;

15 (5) "Financial institution" means a bank, out-of-state bank,  
16 Connecticut credit union, federal credit union or out-of-state credit  
17 union, as those terms are defined in section 36a-2 of the general statutes,  
18 and any affiliate or third-party provider of such entities;

19 (6) "First-time homebuyer" means an individual who did not own or  
20 purchase, either individually or jointly with another person, a single-  
21 family residence prior to the closing date of a real estate transaction  
22 involving the purchase of a single-family residence in this state by the  
23 individual;

24 (7) "First-time homebuyer savings account" means an account  
25 established by one or more account holders with a financial institution  
26 that the account holders designate, on such account holders' return for  
27 the tax imposed under chapter 229 of the general statutes for a taxable  
28 year beginning on or after January 1, 2023, as an account exclusively  
29 containing funds to pay or reimburse eligible costs incurred by the  
30 qualified beneficiary of the account;

31 (8) "Qualified beneficiary" means a first-time homebuyer who is an  
32 account holder and designated as the qualified beneficiary of a first-time  
33 homebuyer savings account and resides in the single-family residence  
34 in this state that is purchased with the funds deposited in such account;

35 (9) "Settlement statement" means the statement of receipts and  
36 disbursements for a transaction related to real estate, including, but not  
37 limited to, a statement prescribed pursuant to the Real Estate Settlement  
38 Procedures Act of 1974, 12 USC Section 2601 et seq., as amended from

39 time to time, and regulations adopted thereunder; and

40 (10) "Single-family residence" means a single-family residential  
41 dwelling, including, but not limited to, a mobile manufactured home or  
42 a residential unit in a cooperative, common interest community or  
43 condominium.

44 (b) For purposes of implementing the deduction allowed under  
45 subparagraph (B) of subdivision (20) of subsection (a) of section 12-701  
46 of the general statutes, as amended by this act, the commissioner shall  
47 prepare forms for (1) the designation of accounts as first-time  
48 homebuyer savings accounts, (2) the designation of qualified  
49 beneficiaries, and (3) account holders to submit to the commissioner the  
50 information described in subparagraph (B) of subdivision (1) of  
51 subsection (d) of this section and any additional information that the  
52 commissioner reasonably requires pursuant to the provisions of this  
53 section.

54 (c) An individual may establish one or more first-time homebuyer  
55 savings accounts with a financial institution. Two individuals may  
56 jointly establish and serve as the account holders of a first-time  
57 homebuyer savings account, provided such account holders shall file a  
58 joint return for the tax imposed under chapter 229 of the general statutes  
59 for each taxable year during which such account exists. The account  
60 holder or account holders shall, not later than April fifteenth of the  
61 taxable year immediately following the taxable year during which such  
62 account holder or account holders established a first-time homebuyer  
63 savings account, designate the qualified beneficiary of such account.  
64 The account holder or account holders of a first-time homebuyer savings  
65 account may designate a new qualified beneficiary of the account at any  
66 time, provided there shall not be more than one qualified beneficiary of  
67 such account at any time. No individual may establish or serve as an  
68 account holder of multiple first-time homebuyer savings accounts that  
69 have the same qualified beneficiary. First-time homebuyer savings  
70 accounts shall exclusively contain cash and there shall be no limit on the  
71 amount of contributions made to, or contained in, such accounts. Any

72 person may contribute to a first-time homebuyer savings account. The  
73 account holder or account holders may invest funds deposited in a first-  
74 time homebuyer savings account in money market funds.

75 (d) (1) Each account holder shall:

76 (A) Not use any portion of the funds deposited in a first-time  
77 homebuyer savings account to pay any administrative fees or expenses,  
78 other than service fees imposed by the depository financial institution,  
79 for such account;

80 (B) Submit to the commissioner such account holder's tax return for  
81 each taxable year beginning on or after January 1, 2022, during which a  
82 first-time homebuyer savings account established by such account  
83 holder exists, along with:

84 (i) Any information required by the commissioner concerning such  
85 first-time homebuyer savings account for purposes of implementing the  
86 deduction allowed under subparagraph (B) of subdivision (20) of  
87 subsection (a) of section 12-701 of the general statutes, as amended by  
88 this act;

89 (ii) The Internal Revenue Service Form 1099 issued by the depository  
90 financial institution for such first-time homebuyer savings account; and

91 (iii) If such account holder withdrew funds from such first-time  
92 homebuyer savings account during the taxable year that is the subject  
93 of such return, a detailed accounting of all eligible costs and ineligible  
94 costs paid or reimbursed using such funds during such taxable year and  
95 the balance of funds remaining in such account.

96 (2) Each account holder may withdraw all, or any portion of, the  
97 funds contributed to and deposited in a first-time homebuyer savings  
98 account and deposit such funds in another first-time homebuyer savings  
99 account established by such account holder at any financial institution.

100 (e) (1) The commissioner may require that financial institutions  
101 furnish certain information about each first-time homebuyer account.

102 (2) No financial institution shall be required to (A) designate an  
103 account as a first-time homebuyer savings account, (B) track the use of  
104 any funds withdrawn from a first-time homebuyer savings account, or  
105 (C) allocate funds in a first-time homebuyer savings account among  
106 account holders.

107 (3) No financial institution shall be liable or responsible for (A)  
108 determining whether, or ensuring that, an account satisfies the  
109 requirements established in this section concerning first-time  
110 homebuyer savings accounts or the funds in first-time homebuyer  
111 savings accounts are used to pay or reimburse eligible costs, or (B)  
112 disclosing or remitting taxes or penalties concerning first-time  
113 homebuyer savings accounts unless such disclosure or remittance is  
114 required by applicable law.

115 (4) Upon receiving proof of the death of an account holder and all  
116 other information required by any contract governing a first-time  
117 homebuyer savings account established by the account holder, the  
118 depository financial institution shall distribute the funds in the first-  
119 time homebuyer savings account in accordance with the terms of such  
120 contract.

121 (f) (1) Except as provided in subdivision (2) of this subsection, each  
122 account holder who withdraws funds from a first-time homebuyer  
123 savings account for any reason other than paying or reimbursing the  
124 qualified beneficiary of such account for eligible costs incurred by such  
125 qualified beneficiary shall be liable to this state for a civil penalty in an  
126 amount not to exceed ten per cent of the withdrawn amount. Such civil  
127 penalty shall be collectible by the commissioner. If such funds were  
128 deducted by an account holder under subparagraph (B) of subdivision  
129 (20) of subsection (a) of section 12-701 of the general statutes, as  
130 amended by this act, then such withdrawn funds shall be considered  
131 income.

132 (2) No account holder shall be liable for a penalty under subdivision  
133 (1) of this subsection, nor shall funds withdrawn from a first-time

134 homebuyer savings account be considered income, if the funds  
135 withdrawn from the first-time homebuyer savings account:

136 (A) Were deposited in another first-time homebuyer savings account  
137 pursuant to subdivision (2) of subsection (d) of this section;

138 (B) Were withdrawn due to the death or disability of an account  
139 holder who established such account;

140 (C) Constitute a disbursement of the assets of such account pursuant  
141 to a filing for protection under the United States Bankruptcy Code, as  
142 amended from time to time; or

143 (D) Were not claimed as a deduction pursuant to subparagraph (B) of  
144 subdivision (20) of subsection (a) of section 12-701 of the general  
145 statutes, as amended by this act, by the account holder on a return for  
146 the tax imposed under chapter 229 of the general statutes.

147 (g) The commissioner may adopt regulations, in accordance with the  
148 provisions of chapter 54 of the general statutes, to implement the  
149 provisions of this section.

150 Sec. 2. Subparagraph (B) of subdivision (20) of subsection (a) of  
151 section 12-701 of the general statutes is repealed and the following is  
152 substituted in lieu thereof (*Effective January 1, 2022*):

153 (B) There shall be subtracted therefrom:

154 (i) To the extent properly includable in gross income for federal  
155 income tax purposes, any income with respect to which taxation by any  
156 state is prohibited by federal law;

157 (ii) To the extent allowable under section 12-718, exempt dividends  
158 paid by a regulated investment company;

159 (iii) To the extent properly includable in gross income for federal  
160 income tax purposes, the amount of any refund or credit for  
161 overpayment of income taxes imposed by this state, or any other state

162 of the United States or a political subdivision thereof, or the District of  
163 Columbia;

164 (iv) To the extent properly includable in gross income for federal  
165 income tax purposes and not otherwise subtracted from federal  
166 adjusted gross income pursuant to clause (x) of this subparagraph in  
167 computing Connecticut adjusted gross income, any tier 1 railroad  
168 retirement benefits;

169 (v) To the extent any additional allowance for depreciation under  
170 Section 168(k) of the Internal Revenue Code for property placed in  
171 service after September 27, 2017, was added to federal adjusted gross  
172 income pursuant to subparagraph (A)(ix) of this subdivision in  
173 computing Connecticut adjusted gross income, twenty-five per cent of  
174 such additional allowance for depreciation in each of the four  
175 succeeding taxable years;

176 (vi) To the extent properly includable in gross income for federal  
177 income tax purposes, any interest income from obligations issued by or  
178 on behalf of the state of Connecticut, any political subdivision thereof,  
179 or public instrumentality, state or local authority, district or similar  
180 public entity created under the laws of the state of Connecticut;

181 (vii) To the extent properly includable in determining the net gain or  
182 loss from the sale or other disposition of capital assets for federal income  
183 tax purposes, any gain from the sale or exchange of obligations issued  
184 by or on behalf of the state of Connecticut, any political subdivision  
185 thereof, or public instrumentality, state or local authority, district or  
186 similar public entity created under the laws of the state of Connecticut,  
187 in the income year such gain was recognized;

188 (viii) Any interest on indebtedness incurred or continued to purchase  
189 or carry obligations or securities the interest on which is subject to tax  
190 under this chapter but exempt from federal income tax, to the extent that  
191 such interest on indebtedness is not deductible in determining federal  
192 adjusted gross income and is attributable to a trade or business carried  
193 on by such individual;

194 (ix) Ordinary and necessary expenses paid or incurred during the  
195 taxable year for the production or collection of income which is subject  
196 to taxation under this chapter but exempt from federal income tax, or  
197 the management, conservation or maintenance of property held for the  
198 production of such income, and the amortizable bond premium for the  
199 taxable year on any bond the interest on which is subject to tax under  
200 this chapter but exempt from federal income tax, to the extent that such  
201 expenses and premiums are not deductible in determining federal  
202 adjusted gross income and are attributable to a trade or business carried  
203 on by such individual;

204 (x) (I) For taxable years commencing prior to January 1, 2019, for a  
205 person who files a return under the federal income tax as an unmarried  
206 individual whose federal adjusted gross income for such taxable year is  
207 less than fifty thousand dollars, or as a married individual filing  
208 separately whose federal adjusted gross income for such taxable year is  
209 less than fifty thousand dollars, or for a husband and wife who file a  
210 return under the federal income tax as married individuals filing jointly  
211 whose federal adjusted gross income for such taxable year is less than  
212 sixty thousand dollars or a person who files a return under the federal  
213 income tax as a head of household whose federal adjusted gross income  
214 for such taxable year is less than sixty thousand dollars, an amount  
215 equal to the Social Security benefits includable for federal income tax  
216 purposes;

217 (II) For taxable years commencing prior to January 1, 2019, for a  
218 person who files a return under the federal income tax as an unmarried  
219 individual whose federal adjusted gross income for such taxable year is  
220 fifty thousand dollars or more, or as a married individual filing  
221 separately whose federal adjusted gross income for such taxable year is  
222 fifty thousand dollars or more, or for a husband and wife who file a  
223 return under the federal income tax as married individuals filing jointly  
224 whose federal adjusted gross income from such taxable year is sixty  
225 thousand dollars or more or for a person who files a return under the  
226 federal income tax as a head of household whose federal adjusted gross  
227 income for such taxable year is sixty thousand dollars or more, an



228 amount equal to the difference between the amount of Social Security  
229 benefits includable for federal income tax purposes and the lesser of  
230 twenty-five per cent of the Social Security benefits received during the  
231 taxable year, or twenty-five per cent of the excess described in Section  
232 86(b)(1) of the Internal Revenue Code;

233 (III) For the taxable year commencing January 1, 2019, and each  
234 taxable year thereafter, for a person who files a return under the federal  
235 income tax as an unmarried individual whose federal adjusted gross  
236 income for such taxable year is less than seventy-five thousand dollars,  
237 or as a married individual filing separately whose federal adjusted gross  
238 income for such taxable year is less than seventy-five thousand dollars,  
239 or for a husband and wife who file a return under the federal income tax  
240 as married individuals filing jointly whose federal adjusted gross  
241 income for such taxable year is less than one hundred thousand dollars  
242 or a person who files a return under the federal income tax as a head of  
243 household whose federal adjusted gross income for such taxable year is  
244 less than one hundred thousand dollars, an amount equal to the Social  
245 Security benefits includable for federal income tax purposes; and

246 (IV) For the taxable year commencing January 1, 2019, and each  
247 taxable year thereafter, for a person who files a return under the federal  
248 income tax as an unmarried individual whose federal adjusted gross  
249 income for such taxable year is seventy-five thousand dollars or more,  
250 or as a married individual filing separately whose federal adjusted gross  
251 income for such taxable year is seventy-five thousand dollars or more,  
252 or for a husband and wife who file a return under the federal income tax  
253 as married individuals filing jointly whose federal adjusted gross  
254 income from such taxable year is one hundred thousand dollars or more  
255 or for a person who files a return under the federal income tax as a head  
256 of household whose federal adjusted gross income for such taxable year  
257 is one hundred thousand dollars or more, an amount equal to the  
258 difference between the amount of Social Security benefits includable for  
259 federal income tax purposes and the lesser of twenty-five per cent of the  
260 Social Security benefits received during the taxable year, or twenty-five  
261 per cent of the excess described in Section 86(b)(1) of the Internal

262 Revenue Code;

263 (xi) To the extent properly includable in gross income for federal  
264 income tax purposes, any amount rebated to a taxpayer pursuant to  
265 section 12-746;

266 (xii) To the extent properly includable in the gross income for federal  
267 income tax purposes of a designated beneficiary, any distribution to  
268 such beneficiary from any qualified state tuition program, as defined in  
269 Section 529(b) of the Internal Revenue Code, established and  
270 maintained by this state or any official, agency or instrumentality of the  
271 state;

272 (xiii) To the extent allowable under section 12-701a, contributions to  
273 accounts established pursuant to any qualified state tuition program, as  
274 defined in Section 529(b) of the Internal Revenue Code, established and  
275 maintained by this state or any official, agency or instrumentality of the  
276 state;

277 (xiv) To the extent properly includable in gross income for federal  
278 income tax purposes, the amount of any Holocaust victims' settlement  
279 payment received in the taxable year by a Holocaust victim;

280 (xv) To the extent properly includable in gross income for federal  
281 income tax purposes of an account holder, as defined in section 31-  
282 51ww, interest earned on funds deposited in the individual  
283 development account, as defined in section 31-51ww, of such account  
284 holder;

285 (xvi) To the extent properly includable in the gross income for federal  
286 income tax purposes of a designated beneficiary, as defined in section  
287 3-123aa, interest, dividends or capital gains earned on contributions to  
288 accounts established for the designated beneficiary pursuant to the  
289 Connecticut Homecare Option Program for the Elderly established by  
290 sections 3-123aa to 3-123ff, inclusive;

291 (xvii) To the extent properly includable in gross income for federal

292 income tax purposes, any income received from the United States  
293 government as retirement pay for a retired member of (I) the Armed  
294 Forces of the United States, as defined in Section 101 of Title 10 of the  
295 United States Code, or (II) the National Guard, as defined in Section 101  
296 of Title 10 of the United States Code;

297 (xviii) To the extent properly includable in gross income for federal  
298 income tax purposes for the taxable year, any income from the discharge  
299 of indebtedness in connection with any reacquisition, after December  
300 31, 2008, and before January 1, 2011, of an applicable debt instrument or  
301 instruments, as those terms are defined in Section 108 of the Internal  
302 Revenue Code, as amended by Section 1231 of the American Recovery  
303 and Reinvestment Act of 2009, to the extent any such income was added  
304 to federal adjusted gross income pursuant to subparagraph (A)(xi) of  
305 this subdivision in computing Connecticut adjusted gross income for a  
306 preceding taxable year;

307 (xix) To the extent not deductible in determining federal adjusted  
308 gross income, the amount of any contribution to a manufacturing  
309 reinvestment account established pursuant to section 32-9zz in the  
310 taxable year that such contribution is made;

311 (xx) To the extent properly includable in gross income for federal  
312 income tax purposes, (I) for the taxable year commencing January 1,  
313 2015, ten per cent of the income received from the state teachers'  
314 retirement system, (II) for the taxable years commencing January 1,  
315 2016, to January 1, 2020, inclusive, twenty-five per cent of the income  
316 received from the state teachers' retirement system, and (III) for the  
317 taxable year commencing January 1, 2021, and each taxable year  
318 thereafter, fifty per cent of the income received from the state teachers'  
319 retirement system or the percentage, if applicable, pursuant to clause  
320 (xxi) of this subparagraph;

321 (xxi) To the extent properly includable in gross income for federal  
322 income tax purposes, except for retirement benefits under clause (iv) of  
323 this subparagraph and retirement pay under clause (xvii) of this

324 subparagraph, for a person who files a return under the federal income  
325 tax as an unmarried individual whose federal adjusted gross income for  
326 such taxable year is less than seventy-five thousand dollars, or as a  
327 married individual filing separately whose federal adjusted gross  
328 income for such taxable year is less than seventy-five thousand dollars,  
329 or as a head of household whose federal adjusted gross income for such  
330 taxable year is less than seventy-five thousand dollars, or for a husband  
331 and wife who file a return under the federal income tax as married  
332 individuals filing jointly whose federal adjusted gross income for such  
333 taxable year is less than one hundred thousand dollars, (I) for the taxable  
334 year commencing January 1, 2019, fourteen per cent of any pension or  
335 annuity income, (II) for the taxable year commencing January 1, 2020,  
336 twenty-eight per cent of any pension or annuity income, (III) for the  
337 taxable year commencing January 1, 2021, forty-two per cent of any  
338 pension or annuity income, (IV) for the taxable year commencing  
339 January 1, 2022, fifty-six per cent of any pension or annuity income, (V)  
340 for the taxable year commencing January 1, 2023, seventy per cent of any  
341 pension or annuity income, (VI) for the taxable year commencing  
342 January 1, 2024, eighty-four per cent of any pension or annuity income,  
343 and (VII) for the taxable year commencing January 1, 2025, and each  
344 taxable year thereafter, any pension or annuity income;

345 (xxii) The amount of lost wages and medical, travel and housing  
346 expenses, not to exceed ten thousand dollars in the aggregate, incurred  
347 by a taxpayer during the taxable year in connection with the donation  
348 to another person of an organ for organ transplantation occurring on or  
349 after January 1, 2017;

350 (xxiii) To the extent properly includable in gross income for federal  
351 income tax purposes, the amount of any financial assistance received  
352 from the Crumbling Foundations Assistance Fund or paid to or on  
353 behalf of the owner of a residential building pursuant to sections 8-442  
354 and 8-443;

355 (xxiv) To the extent properly includable in gross income for federal  
356 income tax purposes, the amount calculated pursuant to subsection (b)

357 of section 12-704g for income received by a general partner of a venture  
358 capital fund, as defined in 17 CFR 275.203(l)-1, as amended from time to  
359 time; [and]

360 (xxv) To the extent any portion of a deduction under Section 179 of  
361 the Internal Revenue Code was added to federal adjusted gross income  
362 pursuant to subparagraph (A)(xiv) of this subdivision in computing  
363 Connecticut adjusted gross income, twenty-five per cent of such  
364 disallowed portion of the deduction in each of the four succeeding  
365 taxable years; [.]

366 (xxvi) For an account holder, as defined in section 1 of this act, who  
367 files a return under the federal income tax as an unmarried individual,  
368 a married individual filing separately or a head of household whose  
369 federal adjusted gross income for the taxable year is less than one  
370 hundred sixty-two thousand five hundred dollars or who files a return  
371 under the federal income tax as married individuals filing jointly whose  
372 federal adjusted gross income for the taxable year is less than two  
373 hundred seventy-five thousand dollars:

374 (I) To the extent not deductible in determining federal adjusted gross  
375 income and to the extent allowable under the American Rescue Plan Act  
376 of 2021, P.L. 117-2, as amended from time to time, for the taxable year  
377 commencing January 1, 2023, an amount equal to the contributions  
378 deposited during the taxable years commencing January 1, 2022, and  
379 January 1, 2023, in a first-time homebuyer savings account established  
380 pursuant to subsection (c) of section 1 of this act, less any amounts  
381 withdrawn during said taxable years by the account holder from such  
382 account pursuant to subparagraph (D) of subdivision (2) of subsection  
383 (f) of section 1 of this act. The amount allowed to be claimed under this  
384 subclause shall not exceed two thousand five hundred dollars for each  
385 said taxable year for an unmarried individual, a married individual  
386 filing separately or a head of household and five thousand dollars for  
387 each said taxable year for married individuals filing jointly;

388 (II) To the extent not deductible in determining federal adjusted gross

389 income, for the taxable year commencing January 1, 2024, and each  
390 taxable year thereafter, an amount equal to the contributions deposited  
391 during the taxable year in a first-time homebuyer savings account  
392 established pursuant to subsection (c) of section 1 of this act, less any  
393 amounts withdrawn during the taxable year by the account holder from  
394 such account pursuant to subparagraph (D) of subdivision (2) of  
395 subsection (f) of section 1 of this act. The amount allowed to be claimed  
396 under this subclause for the taxable year shall not exceed two thousand  
397 five hundred dollars for an unmarried individual, a married individual  
398 filing separately or a head of household and five thousand dollars for  
399 married individuals filing jointly; and

400 (III) To the extent properly includable in gross income for federal  
401 income tax purposes, for the taxable year commencing January 1, 2023,  
402 and each taxable year thereafter, an amount equal to the sum of all  
403 interest accrued on a first-time homebuyer savings account, established  
404 pursuant to subsection (c) of section 1 of this act, during the taxable year;  
405 and

406 (xxvii) For an account holder who is a qualified beneficiary of a first-  
407 time homebuyers savings account, as those terms are defined in section  
408 1 of this act, and who files a return under the federal income tax as an  
409 unmarried individual, a married individual filing separately or a head  
410 of household whose federal adjusted gross income for the taxable year  
411 is less than one hundred sixty-two thousand five hundred dollars or  
412 who files a return under the federal income tax as married individuals  
413 filing jointly whose federal adjusted gross income for the taxable year is  
414 less than two hundred seventy-five thousand dollars, for taxable years  
415 commencing on or after January 1, 2023, an amount equal to any  
416 withdrawal from such account that is used to pay or reimburse such  
417 qualified beneficiary for eligible costs, as defined in section 1 of this act,  
418 incurred by the qualified beneficiary.

419 Sec. 3. (NEW) *(Effective from passage)* On or before July 1, 2022, the  
420 Treasurer shall make recommendations, in accordance with section 11-  
421 4a of the general statutes, to the joint standing committee of the General

422 Assembly having cognizance of matters relating to banking regarding  
 423 whether and how marketable securities may be held in a first-time  
 424 homebuyer savings account established pursuant to subsection (c) of  
 425 section 1 of this act.

426 Sec. 4. (NEW) (*Effective from passage*) (a) There is established a fund to  
 427 be known as the "Financial Literacy Trust Fund" to promote the financial  
 428 literacy of residents of the state, which shall be a nonlapsing fund held  
 429 by the Treasurer separate and apart from all other moneys, funds and  
 430 accounts. The trust fund shall constitute an instrumentality of the state  
 431 and shall perform essential governmental functions. The trust fund shall  
 432 receive and hold all payments and deposits or contributions intended  
 433 for the trust fund, including gifts, bequests, endowments or federal,  
 434 state or local grants and any other funds from any public or private  
 435 source and all earnings until disbursed in accordance with this section.

436 (b) The Treasurer shall use the funds deposited into the Financial  
 437 Literacy Trust Fund for the purpose of promoting and raising awareness  
 438 of financial literacy to residents of the state.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>January 1, 2022</i>	New section
Sec. 2	<i>January 1, 2022</i>	12-701(a)(20)(B)
Sec. 3	<i>from passage</i>	New section
Sec. 4	<i>from passage</i>	New section

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

**OFA Fiscal Note**

**State Impact:**

Agency Affected	Fund-Effect	FY 22 \$	FY 23 \$
Department of Revenue Services	GF - Cost	None	Less than 100,000
Department of Revenue Services	GF - Revenue Loss	None	None
Treasurer	GF - Potential Cost	See Below	See Below

Note: GF=General Fund

**Municipal Impact:** None

**Explanation**

The bill, which establishes a first-time homebuyer savings account program and associated income tax deduction, results in: 1) a General Fund revenue loss of less than \$150,000 in FY 24 and less than \$75,000 in FY 25.

The bill also results in a one-time cost to the Department of Revenue Services of less than \$100,000 for form preparation and printing/ mailing costs, as well as updates to the online Taxpayer Service Center and internal Integrated Tax Administration System in FY 23 only.

Finally, the bill results in a potential cost to the Office of the State Treasurer to extent that the fund established in Section 4 receives revenues. To the extent funds are deposited into the newly established "Financial Literacy Trust Fund," the Treasurer would expend such funds for financial literacy programs.

House "A" strikes the underlying bill and associated fiscal impact and results in the impacts described above.



***The Out Years***

The revenue loss would grow in FY 26 and beyond subject to program utilization rates. The bill could result in a revenue loss approaching \$500,000 by FY 31.

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**OLR Bill Analysis****sHB 5027 (as amended by House "A")\******AN ACT REQUIRING THE BANKING COMMISSIONER TO ESTABLISH A FIRST-TIME HOMEBUYER SAVINGS ACCOUNT PROGRAM AND ESTABLISHING A TAX DEDUCTION FOR CONTRIBUTIONS TO FIRST-TIME HOMEBUYER SAVINGS ACCOUNTS.*****SUMMARY**

This bill establishes an income tax deduction for certain individuals who contribute to, or who are the qualified beneficiaries of, funds deposited into a first-time homebuyer savings account, which the bill also creates. The bill requires the Department of Revenue Services (DRS) commissioner to implement the deduction, including preparing associated forms, and allows him to adopt associated regulations.

Under the bill, individuals may open savings accounts at financial institutions (i.e., banks, out-of-state banks, credit unions, or their affiliates or third-party providers) that are dedicated to paying for or reimbursing the down payment and closing costs of an account holder who is a first-time home buyer and will reside in the home purchased with account funds (i.e., the “qualified beneficiary”). The bill designates “first-time homebuyers” as those who have not previously owned or purchased, either individually or with someone else, a single-family residence.

To qualify for the bill’s income tax deductions, account holders must have a federal adjusted gross income (AGI) below specified thresholds. Beginning with the 2023 tax year, the bill allows these qualifying account holders to deduct (1) the contributions deposited in the account, generally capped at \$2,500 for single filers and \$5,000 for joint filers; (2) any interest that accrues on the accounts; and (3) for an account holder

who is also the account's qualified beneficiary, the amount withdrawn from the account that is used to pay or reimburse him or her for program eligible costs.

If funds are withdrawn from a first-time homebuyer savings account for a reason other than an allowed purpose, the bill generally imposes a civil penalty of up to 10% of the amount of withdrawn funds.

The bill requires the treasurer, by July 1, 2022, to make recommendations to the Banking Committee about if and how marketable securities may be held in a first-time homebuyer savings account (§ 3).

Lastly, the bill establishes a "Financial Literacy Trust Fund," to promote and raise awareness of financial literacy to Connecticut residents. The trust fund is a nonlapsing fund held by the treasurer separately from other moneys, funds, and accounts. It must be an instrumentality of the state and perform essential government functions. The fund must receive and hold, until used for its purpose, all payments, deposits, or contributions intended for it, such as gifts, bequests, endowments, governmental grants, and any other funds and earnings (§ 4)

\*House Amendment "A" principally does the following: (1) halves the underlying bill's available deduction, from \$5,000 for single filers and \$10,000 for joint filers, to \$2,500 and \$5,000, respectively; (2) makes DRS, rather than the banking department, responsible for implementing the deduction; (3) expands the list of institutions that may hold the accounts to include more than Connecticut banks and credit unions; (4) eliminates a requirement that the commissioner prepare and distribute certain informational and promotional materials; (5) allows, rather than requires, the commissioner to adopt implementing regulations; and (6) adds the provisions on (a) marketable securities in the savings accounts and (b) the Financial Literacy Trust Fund.

EFFECTIVE DATE: January 1, 2022, for the homebuyer savings account tax deduction and upon passage for the treasurer's

recommendations about marketable securities and Financial Literacy Trust Fund.

## **FIRST-TIME HOMEBUYER SAVINGS ACCOUNTS**

### ***Account Funds***

The bill allows anyone to contribute to a first-time homebuyer savings account with no limit on the amount of contributions that may be made to, or contained in, an account. Accounts must only contain cash, but account holders may invest the funds in money market funds.

The bill limits the use of account funds to paying for (1) a qualified beneficiary's down payment and closing costs to purchase a single-family residence in the state as his or her primary residence (i.e., "eligible costs") and (2) the financial institution's account service fees. Allowable closing costs are the disbursements listed on the statement of receipts and disbursements associated with the home purchase.

Under the bill, a "single-family residence" is a single-family residential dwelling and includes a mobile manufactured home or a unit in a cooperative, common interest community, or condominium.

### ***Account Holder Responsibilities***

***Establishing the Account.*** Under the bill, an individual may establish one or more accounts. Individuals who file a joint tax return may jointly establish and serve as account holders, but the bill requires them to jointly file tax returns for each taxable year that the account exists.

The bill prohibits an account holder from using any funds deposited into an account for administrative fees or expenses, other than the financial institution's service fees.

***Designating the Beneficiary.*** The bill requires an account holder or joint holders to designate the account's qualified beneficiary. They must do so by April 15 of the year immediately following the taxable year during which the holder or holders established the account.

Under the bill, account holders may designate a new qualified beneficiary at any time but there may be only one qualified beneficiary associated with an account at a time. In addition, the bill prohibits anyone from establishing or serving as an account holder of more than one account with the same qualified beneficiary.

**Tax Reporting.** The bill requires an account holder to submit to the DRS commissioner certain information for each tax year during which the holder has a first-time homebuyer savings account.

Specifically, the bill requires an account holder to submit his or her income tax return, along with the following information:

1. any information the commissioner requires about the account to implement the deduction;
2. the Internal Revenue Service Form 1099 issued by the financial institution for the account; and
3. if the account holder withdrew funds from the account during the taxable year, (a) a detailed accounting of the eligible and ineligible costs paid or reimbursed with account funds and (b) the remaining account balance.

**Withdrawing Funds.** The bill allows an account holder to withdraw any amount of the funds contributed to and deposited in an account, without penalty, as long as the funds are deposited in another first-time homebuyer savings account that the holder established.

But withdrawing from the account for a reason other than transferring the funds to another such account or paying or reimbursing the qualified beneficiary for the home purchase down payment or closing costs is generally subject to a state civil penalty of up to 10% of the withdrawn amount, which is collectable by the DRS commissioner. (The bill does not specify how or when the DRS commissioner must set or assess the withdrawal penalty. Presumably, it would be set by the DRS commissioner in regulations, but the bill only authorizes him to

adopt regulations, it does not require him to do so.) If the account holder deducted these withdrawn funds for state income tax purposes (presumably as contributions to or accrued interest on the account), then they are considered income (and presumably must be added to the account holder's AGI for the tax year in which they were withdrawn).

The bill waives the withdrawal penalty and excludes the withdrawn funds from being considered income under the following four circumstances:

1. the account holder did not claim the funds for a state income tax deduction (presumably for the deductions established under the bill),
2. the withdrawn funds were subsequently deposited in another account under the first-time homebuyer savings program,
3. the withdrawal was due to the death or disability of an account holder who established the account, or
4. the withdrawal is considered an asset disbursement as part of a bankruptcy proceeding.

### ***Commissioner Responsibilities***

As part of his responsibilities under the bill for implementing the deduction, the DRS commissioner must prepare forms for:

1. designating (a) accounts as first-time homebuyer savings accounts and (b) qualified beneficiaries and
2. account holders to submit to the commissioner information about their accounts for tax purposes and any other information the commissioner needs to perform his program duties.

The bill allows him to require financial institutions to provide certain information about each first-time homebuyer account.

### ***Financial Institution Responsibilities***

The bill limits the role of financial institutions by specifying that they are not required to:

1. designate an account as a “first-time homebuyer savings account” or someone as the account’s qualified beneficiary,
2. track the use of funds withdrawn from an account, or
3. allocate account funds among account holders.

In addition, under the bill, a financial institution is not liable or responsible for:

1. determining if, or ensuring that, an account meets the law’s requirements;
2. determining if account funds are used to pay or reimburse eligible costs; and
3. disclosing or remitting taxes or penalties unless the law requires it.

However, the bill requires the distribution of funds in a first-time homebuyer savings account when a financial institution receives proof of an account holder’s death and all other information required by the contract governing the account. The contract designates how the funds must be distributed.

## **TAX DEDUCTIONS**

Beginning with the 2023 tax year, the bill establishes three tax deductions for first-time homebuyer account holders for single filers (i.e., unmarried individuals, married individuals filing separately, and heads of household) with a federal AGI of less than \$162,500, and joint filers with a federal AGI of less than \$275,000. The deductions are for qualifying contributions, accrued interest, and withdrawals from the first-time homebuyer accounts and apply only to the extent the income is included in the taxpayer’s federal AGI.

Under the bill, the deduction for contributions generally equals the amount contributed to an account during the applicable tax year, minus any funds withdrawn during the tax year that were not already claimed for a deduction, up to a specified cap. For the 2023 tax year, account holders may deduct the amount contributed to the account for the 2022 and 2023 tax years, up to \$2,500 for single filers and \$5,000 for joint filers for each such tax year (i.e., \$5,000 for single filers and \$10,000 for joint filers, in the aggregate). (The bill specifies that the deduction for the 2023 tax year may be claimed to the extent allowable under the federal American Rescue Plan Act of 2021.) For the 2024 tax year and thereafter, the deduction is capped at \$2,500 for single filers and \$5,000 for joint filers for each tax year.

The bill also allows taxpayers to deduct the interest accrued on an account during the tax year.

The bill also establishes a tax deduction for an account holder who is a qualified beneficiary in the amount of any withdrawal from an account that is used to pay or reimburse for the eligible costs he or she incurs.

**COMMITTEE ACTION**

Banking Committee

Joint Favorable Substitute  
 Yea 18 Nay 0 (02/23/2021)

Finance, Revenue and Bonding Committee

Joint Favorable  
 Yea 49 Nay 0 (05/03/2021)