

STATE OF RHODE ISLAND

IN GENERAL ASSEMBLY

JANUARY SESSION, A.D. 2021

A N A C T

RELATING TO TAXATION – THE FIRST-TIME HOMEBUYERS SAVINGS ACCOUNT ACT

Introduced By: Senators Pearson, Cano, Miller, Coyne, and Euer

Date Introduced: March 04, 2021

Referred To: Senate Finance

It is enacted by the General Assembly as follows:

1 SECTION 1. Title 44 of the General Laws entitled "TAXATION" is hereby amended by
2 adding thereto the following chapter:

3 CHAPTER 70

4 FIRST-TIME HOMEBUYERS SAVINGS ACCOUNT ACT

5 **44-70-1. Short title.**

6 This chapter shall be known and may be cited as the "The First-Time Homebuyer Savings
7 Account Act."

8 **44-70-2. Legislative findings.**

9 The general assembly finds and declares that

10 (1) Saving for a down payment and closing costs for the purchase of a first home can be
11 difficult.

12 (2) The establishment of first-time homebuyer savings accounts will provide an
13 opportunity for Rhode Island residents to save funds for home ownership.

14 (3) The establishment of such accounts will allow Rhode Island residents to benefit from
15 the tax incentive provided for qualified first-time homebuyers and to provide residents with
16 meaningful incentives to save for the purchase of a first home within the state.

17 **44-70-3. Definitions.**

18 As used in this chapter:

1 (1) "Account holder" means an individual who establishes, individually or jointly, with one
2 or more other individuals, a first-time homebuyer savings account.

3 (2) "Allowable closing costs" means a disbursement listed on a settlement statement for
4 the purchase of a home in Rhode Island by a qualified beneficiary.

5 (3) "Eligible costs" means the down payment and allowable closing costs for the purchase
6 of a home in Rhode Island by a qualified beneficiary.

7 (4) "Financial institution" means any bank, trust company, mortgage lender, savings
8 institution, industrial loan association, consumer finance company, credit union, or any benefit
9 association, insurance company, safe deposit company, money market mutual fund, or similar
10 entity authorized to do business in Rhode Island.

11 (5) "First-time homebuyer" means an individual who resides in Rhode Island and has not
12 owned or purchased, either individually or jointly, a home during a period of three (3) years prior
13 to the date of the purchase of a home.

14 (6) "First-time homebuyer savings account" or "account" means an account with a financial
15 institution that an account holder designates as a first-time home buyer savings account on the
16 account holder's Rhode Island income tax return for tax year 2021 or any tax year thereafter,
17 pursuant to this chapter for the purpose of paying or reimbursing eligible costs for the purchase of
18 a home in Rhode Island by a qualified beneficiary.

19 (7) "Home" means a dwelling owned and occupied by a qualified beneficiary as the
20 qualified beneficiary's primary residence, which may include a single-family dwelling, multi-
21 family dwelling, manufactured home, trailer, mobile home, condominium unit, or cooperative.

22 (8) "Qualified beneficiary" means a first-time homebuyer who is designated as the qualified
23 beneficiary of an account designated by the account holder as a first-time homebuyer savings
24 account.

25 (9) "Settlement statement" means the statement of receipts and disbursements for a
26 transaction related to real estate, including a statement prescribed under the Real Estate Settlement
27 Procedures Act of 1974, 12 U.S.C. 2601 et seq., as amended, and regulations thereunder.

28 **44-70-4. Establishment of first-time homebuyer savings account.**

29 (a) Designation and use of first-time home buyer savings account. Any individual may
30 open an account with a financial institution and designate the account, in its entirety, as a first-time
31 homebuyer savings account to be used to pay or reimburse a qualified beneficiary's eligible costs
32 for the purchase of a home in Rhode Island.

33 (b) Designation of qualified beneficiary. An account holder must designate no later than
34 April 15 of the year following the tax year during which the account is established, a first-time

1 homebuyer as the qualified beneficiary of the first-time homebuyer savings account. The account
2 holder may designate himself or herself as the qualified beneficiary and may change the designated
3 qualified beneficiary at any time, but there may not be more than one qualified beneficiary at any
4 one time.

5 (c) Joint account holders. An individual may jointly own a first-time homebuyer savings
6 account with another person if the joint account holders file a joint income tax return.

7 (d) Account holder of multiple accounts. An individual may be the account holder of more
8 than one first-time homebuyer savings account. However, an account holder cannot have multiple
9 accounts that designate the same qualified beneficiary.

10 (1) Qualified beneficiary of more than one account. An individual may be designated as
11 the qualified beneficiary on more than one first-time homebuyer savings account.

12 (2) Contributions to account. Only cash and marketable securities may be contributed to a
13 first-time homebuyer savings account. Subject to the limitations of § 44-70-4(d), persons other than
14 the account holder may contribute funds to a first-time homebuyer savings account. There is no
15 limitation on the amount of contributions that may be made to or retained in a first-time homebuyer
16 savings account.

17 **44-70-5. Account holder responsibilities.**

18 (a) The account holder:

19 (1) Shall not use funds held in a first-time homebuyer savings account to pay expenses of
20 administering the account, except that a service fee may be deducted from the account by a financial
21 institution in which the account is held;

22 (2) Shall submit to the division of taxation, with the account holder's Rhode Island income
23 tax return on forms prepared by the division of taxation, detailed information regarding the first-
24 time home buyer savings account, including a list of transactions for the account during the tax
25 year; and the Form 1099 issued by the financial institution for such account.

26 (3) Shall submit to the division of taxation, upon a withdrawal of funds from a first-time
27 homebuyer savings account, a detailed account of the eligible costs toward which the account funds
28 were applied and a statement of the amount of funds remaining in the account, if any.

29 (b) Transfer of funds. An account holder may withdraw funds, in whole or in part, from a
30 first-time homebuyer savings account and deposit the funds in a new first-time homebuyer savings
31 account held by a different financial institution or the same financial institution.

32 **44-70-6. Financial institutions.**

33 (a) A financial institution shall not be required to:

34 (1) Designate an account as a first-time homebuyer savings account, or designate the

1 qualified beneficiaries of an account, in the financial institution's account contracts or systems or
2 in any other way;

3 (2) Track the use of money withdrawn from a first-time homebuyer savings account;

4 (3) Allocate funds in a first-time homebuyer savings account among joint account holders
5 or multiple qualified beneficiaries; or

6 (4) Report any information to the division of taxation or any other governmental agency
7 that is not otherwise required by law.

8 (b) A financial institution is not responsible or liable for:

9 (1) Determining or ensuring that an account satisfies the requirements to be a first-time
10 homebuyer savings account;

11 (2) Determining or ensuring that funds in a first-time homebuyer savings account are used
12 for eligible costs; or

13 (3) Reporting or remitting taxes or penalties related to the use of a first-time homebuyer
14 savings account.

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

19 **44-70-7. Deduction and exclusion from taxable income.**

20 (a) Deduction of contributions. Except as otherwise provided in this chapter and subject to
21 the limitations under this section, there shall be deducted from taxable income of an account holder
22 for Rhode Island income tax purposes the amount contributed to a first-time homebuyer savings
23 account during each tax year, subject to the limitations of § 44-70-7(b), not to exceed ten thousand
24 dollars (\$10,000) for an account holder who files an individual tax return or twenty thousand dollars
25 (\$20,000) for joint account holders who file a joint tax return.

26 (b) Exclusion of earnings. Except as otherwise provided in this chapter and subject to the
27 limitations under this section, there shall be excluded from taxable income of an account holder for
28 Rhode Island income tax purposes the amount of earnings, including interest and other income on
29 the principal, from the first-time homebuyer savings account during the tax year.

30 (c) Limitations on deduction and exclusion from taxable income. An account holder may
31 claim the deduction and exclusion under this section:

32 (1) For a period not to exceed fifteen (15) years;

33 (2) For an aggregate total amount of principal and earnings, not to exceed three hundred
34 thousand (\$300,000) dollars during that fifteen (15) year period; and

1 (3) Only if the principal and earnings of the account remain in the account until a
2 withdrawal is made for eligible costs related to the purchase of a home by a qualified beneficiary,
3 except as otherwise provided in § 44-70-7(b) of this section.

4 (d) Non-account holders. A person other than the account holder who deposits funds in a
5 first-time homebuyer savings account shall not be entitled to the deduction and exclusion provided
6 for under this chapter.

7 (e) Remaining funds. Any funds in a first-time homebuyer savings account not expended
8 on eligible costs by December 31 of the last year of the fifteen (15) year period shall thereafter be
9 included in the account holder's taxable income.

10 (f) Application to alternative basis taxation. The deduction and exclusion from taxable
11 income provided for by this chapter shall apply to any alternative bases for calculating taxable
12 income for Rhode Island income tax purposes.

13 **44-70-8. Penalty for withdrawal for purpose other than eligible costs.**

14 (a) Except as otherwise authorized by this chapter, if the account holder withdraws any
15 funds from a first-time homebuyer savings account for a purpose other than eligible costs for the
16 purchase of a home:

17 (1) Those funds shall be included in the account holder's taxable income; and

18 (2) The account holder shall pay a penalty to the division of taxation equal to ten percent
19 (10%) of the amount withdrawn. Such penalty shall not apply to funds withdrawn from an account
20 that were:

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

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

24 (iii) Transferred from an account established under this chapter into another account
25 established under this chapter.

26 (b) The division of taxation shall prepare forms for the designation of an account with a
27 financial institution to serve as a first-time homebuyer savings account; and the designation of a
28 qualified beneficiary of a first-time home buyer savings account; and

29 (c) For an account holder to annually submit to the division of taxation detailed information
30 regarding the first-time homebuyer savings account, including, but not limited to, a list of
31 transactions for the account during the tax year, and identifying any supporting documentation that
32 is required to be maintained by the account holder.

1 SECTION 2. This act shall take effect upon passage.

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EXPLANATION
BY THE LEGISLATIVE COUNCIL
OF

A N A C T

RELATING TO TAXATION – THE FIRST-TIME HOMEBUYERS SAVINGS ACCOUNT
ACT

1 This act would authorize the creation of first-time homebuyer savings account from which
2 savings to purchase a home could be deducted from an individual's or couple's personal income
3 taxes.

4 This act would take effect upon passage.

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