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Bill Analysis

Version: As Introduced

Primary Sponsors: Sens. Gavarone and Peterson

Mackenzie Damon, Attorney

SUMMARY

- Creates a First-Time Home Buyer Savings Program, under which individuals may receive an income tax deduction for deposits made to a first-time home buyer savings account.
- Allows an individual to open a "first-time home buyer savings account" and to designate a first-time home buyer (either the individual or another person) as the account's beneficiary.
- Authorizes an annual income tax deduction of up to $5,000 for deposits made to, and interest earned on, a first-time home buyer savings account.
- Limits the total deduction an individual may claim for all years to $50,000.
- Provides that individuals retain this tax benefit only if the account beneficiary uses the money in the account to make a down payment or pay the closing costs on a single-family home.
- Requires that, if money in an account is not used for that purpose, the individual must add back the deduction claimed and, unless an exception applies, pay an additional 10% penalty.
- Requires the Department of Taxation to administer and publicize the program.

DETAILED ANALYSIS

First-Time Home Buyer Savings Act

The bill, titled the "First-Time Home Buyer Savings Act," authorizes a tax-favored savings program for home buyers. Under the program, an individual may open a first-time home buyer savings account and receive an income tax deduction for amounts deposited into the account. The individual may then withdraw money from the account to make a down payment or pay the closing costs on a single-family home.

First-time home buyer savings accounts

To participate in the program, an individual must first open an account with a bank or other financial institution and designate the account as a "first-time home buyer savings account."

The individual must also designate an individual as the beneficiary of the account. Under the bill, a qualifying beneficiary is an Ohio resident who has not owned or purchased a single-family home in the three years before the year in which the individual takes money out of a first-time home buyer savings account to buy a single-family home.[1]

The beneficiary of the account can be the account holder or another individual selected by the account holder. An individual can open multiple accounts, but cannot designate the same beneficiary for more than one account. Similarly, an individual can be the beneficiary of more than one account, so long as those accounts are each opened by a different person. Anyone can contribute any amount to an account, but only deposits made by the account holder qualify for the income tax deduction.[2]

Income tax deduction

An individual who opens a first-time home buyer savings account can claim an income tax deduction for (a) deposits made to the account and (b) interest earned on the account. The deduction equals the amount deposited, plus interest earned, each year, up to a maximum of $5,000 per year ($10,000 for joint returns).

The total deduction that an individual may receive, for all years and for all of the individual's accounts, is $50,000 ($100,000 for joint returns).[3]

Withdrawal requirements

Under the bill, when an individual withdraws money from a first-time home buyer savings account, the individual (or other beneficiary) may use the withdrawal to make a down payment and pay the closing costs on an eligible single-family residence. The residence may include a single-family home, a unit in a multiple-unit building, or a manufactured or mobile home.[4]

Add-back and penalty for nonqualified withdrawals

If an individual withdraws money from an account and uses that money for another purpose, or if there is money remaining in the account 15 years after the account holder first opened an account, those amounts are disqualified from the tax deduction and must be added back on the individual's next tax return.

[1] R.C. 193.01(E).

[2] R.C. 193.02.

[3] R.C. 193.05 and 5747.01(A)(34).

[4] R.C. 193.01(I).

In addition, disqualified amounts are subject to a 10% penalty, unless the amount was withdrawn due to death, disability, or bankruptcy; the bank withdrew the amount as a service fee; or the amount was transferred to another first-time home buyer savings account. The 10% penalty must be paid with the individual's tax return and is considered revenue from the income tax.[5]

Program administration

The bill requires the Tax Commissioner to administer the first-time home buyer savings program. As part of the program, the Commissioner must adopt forms for the designation of accounts and beneficiaries. In addition, when filing their tax return, account holders are required to provide the Commissioner with information about their account activity, including:

1. A ledger indicating deposits into, and withdrawals from, the account, including withdrawals for bank service fees;
2. Any IRS form 1099 issued to the account holder by the bank or other financial institution with respect to the account;
3. When money is withdrawn from an account, the amount withdrawn, the amount remaining in the account, and the eligible costs for which the money was used;
4. When money is transferred to a different first-time home buyer savings account, information on that other account;
5. When money is withdrawn due to death or disability, the name and address of the person to whom the money was distributed.

The bill also requires the Commissioner to publicize the program by distributing informational materials about the program to banks and potential home buyers.[6]

Financial institution responsibilities

The bill specifies that financial institutions are not required to designate accounts as "first-time home buyer" savings accounts for purposes of the institution's account contracts or systems, track the use of money withdrawn from an account, or allocate funds among joint account holders or multiple beneficiaries. In addition, the institutions are not liable for determining whether an account qualifies as a first-time home buyer savings account, determining whether funds are used for eligible costs, or reporting or paying taxes or penalties related to an account.[7]

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[5] R.C. 193.05 and 193.06.

[6] R.C. 193.03 and 193.07.

[7] R.C. 193.04.

HISTORY

Action	Date
Introduced	04-30-19

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