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State of Minnesota

HOUSE OF REPRESENTATIVES

NINETIETH SESSION

H. F. No. 1234

- 02/14/2017 Authored by Davids, Hortman, Peterson, Lillie, Hoppe and others
The bill was read for the first time and referred to the Committee on Commerce and Regulatory Reform
- 03/02/2017 Adoption of Report: Re-referred to the Committee on State Government Finance
- 03/23/2017 By motion, recalled and re-referred to the Committee on Taxes

1.1 A bill for an act

1.2 relating to housing; establishing a first-time home buyer savings account program;

1.3 authorizing establishment of accounts; allowing for income tax subtractions for

1.4 contributions and earnings on the account; appropriating money; amending

1.5 Minnesota Statutes 2016, sections 290.0131, by adding a subdivision; 290.0132,

1.6 by adding a subdivision; 290.06, by adding a subdivision; 290.091, subdivision

1.7 2; proposing coding for new law as Minnesota Statutes, chapter 462D.

1.8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.9 Section 1. Minnesota Statutes 2016, section 290.0131, is amended by adding a subdivision

1.10 to read:

1.11 Subd. 14. First-time home buyer savings account. The amount for a first-time home

1.12 buyer savings account required by section 462D.06, subdivision 2, is an addition.

1.13 EFFECTIVE DATE. This section is effective for taxable years beginning after December

1.14 31, 2016.

1.15 Sec. 2. Minnesota Statutes 2016, section 290.0132, is amended by adding a subdivision

1.16 to read:

1.17 Subd. 23. First-time home buyer savings account. (a) The amount for contributions

1.18 to and earnings on a first-time home buyer savings account allowed by section 462D.06,

1.19 subdivision 1, is a subtraction.

1.20 (b) The subtraction allowed under this subdivision for a taxable year is limited to \$7,500,

1.21 or \$15,000 for married joint filers. For a taxpayer whose adjusted gross income, as defined

1.22 in section 62 of the Internal Revenue Code, for the taxable year exceeds \$125,000, or

2.1 \$250,000 for married joint filers, the maximum subtraction is reduced \$1 for each \$4 of
 2.2 adjusted gross income in excess of that threshold.

2.3 (c) The adjusted gross income thresholds under paragraph (b) are annually adjusted for
 2.4 inflation. Effective for taxable year 2018, the commissioner shall adjust the dollar amount
 2.5 of the income thresholds at which the maximum credit begins to be reduced under paragraph
 2.6 (b) by the percentage determined under section 1(f) of the Internal Revenue Code, except
 2.7 that in section 1(f)(3)(B) the word "2016" is substituted for the word "1992." For 2018, the
 2.8 commissioner shall then determine the percent change from the 12 months ending on August
 2.9 31, 2016, to the 12 months ending on August 31, 2017, and in each subsequent year, from
 2.10 the 12 months ending on August 31, 2016, to the 12 months ending on August 31 of the
 2.11 year preceding the taxable year. The determination of the commissioner under this
 2.12 subdivision is not a "rule" and is not subject to the Administrative Procedure Act in chapter
 2.13 14. The threshold amount as adjusted must be rounded to the nearest \$100 amount. If the
 2.14 amount ends in \$50, the amount is rounded up to the nearest \$100 amount.

2.15 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December
 2.16 31, 2016.

2.17 Sec. 3. Minnesota Statutes 2016, section 290.06, is amended by adding a subdivision to
 2.18 read:

2.19 Subd. 2g. **First-time home buyer savings account.** In addition to the tax computed
 2.20 under subdivision 2c, an additional amount of tax applies equal to the additional tax computed
 2.21 for the taxable year for the account holder of a first-time home buyer account under section
 2.22 462D.06, subdivision 3.

2.23 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December
 2.24 31, 2016.

2.25 Sec. 4. Minnesota Statutes 2016, section 290.091, subdivision 2, is amended to read:

2.26 Subd. 2. **Definitions.** For purposes of the tax imposed by this section, the following
 2.27 terms have the meanings given:

2.28 (a) "Alternative minimum taxable income" means the sum of the following for the taxable
 2.29 year:

2.30 (1) the taxpayer's federal alternative minimum taxable income as defined in section
 2.31 55(b)(2) of the Internal Revenue Code;

3.1 (2) the taxpayer's itemized deductions allowed in computing federal alternative minimum
3.2 taxable income, but excluding:

3.3 (i) the charitable contribution deduction under section 170 of the Internal Revenue Code;

3.4 (ii) the medical expense deduction;

3.5 (iii) the casualty, theft, and disaster loss deduction; and

3.6 (iv) the impairment-related work expenses of a disabled person;

3.7 (3) for depletion allowances computed under section 613A(c) of the Internal Revenue
3.8 Code, with respect to each property (as defined in section 614 of the Internal Revenue Code),
3.9 to the extent not included in federal alternative minimum taxable income, the excess of the
3.10 deduction for depletion allowable under section 611 of the Internal Revenue Code for the
3.11 taxable year over the adjusted basis of the property at the end of the taxable year (determined
3.12 without regard to the depletion deduction for the taxable year);

3.13 (4) to the extent not included in federal alternative minimum taxable income, the amount
3.14 of the tax preference for intangible drilling cost under section 57(a)(2) of the Internal Revenue
3.15 Code determined without regard to subparagraph (E);

3.16 (5) to the extent not included in federal alternative minimum taxable income, the amount
3.17 of interest income as provided by section 290.0131, subdivision 2; and

3.18 (6) the amount of addition required by section 290.0131, subdivisions 9 to 11;

3.19 less the sum of the amounts determined under the following:

3.20 (1) interest income as defined in section 290.0132, subdivision 2;

3.21 (2) an overpayment of state income tax as provided by section 290.0132, subdivision 3,
3.22 to the extent included in federal alternative minimum taxable income;

3.23 (3) the amount of investment interest paid or accrued within the taxable year on
3.24 indebtedness to the extent that the amount does not exceed net investment income, as defined
3.25 in section 163(d)(4) of the Internal Revenue Code. Interest does not include amounts deducted
3.26 in computing federal adjusted gross income;

3.27 (4) amounts subtracted from federal taxable income as provided by section 290.0132,
3.28 subdivisions 7, 9 to 15, 17, ~~and 21~~, and 23; and

3.29 (5) the amount of the net operating loss allowed under section 290.095, subdivision 11,
3.30 paragraph (c).

4.1 In the case of an estate or trust, alternative minimum taxable income must be computed
4.2 as provided in section 59(c) of the Internal Revenue Code.

4.3 (b) "Investment interest" means investment interest as defined in section 163(d)(3) of
4.4 the Internal Revenue Code.

4.5 (c) "Net minimum tax" means the minimum tax imposed by this section.

4.6 (d) "Regular tax" means the tax that would be imposed under this chapter (without regard
4.7 to this section and section 290.032), reduced by the sum of the nonrefundable credits allowed
4.8 under this chapter.

4.9 (e) "Tentative minimum tax" equals 6.75 percent of alternative minimum taxable income
4.10 after subtracting the exemption amount determined under subdivision 3.

4.11 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December
4.12 31, 2016.

4.13 Sec. 5. **[462D.01] CITATION.**

4.14 This chapter may be cited as the "First-Time Home Buyer Savings Account Act."

4.15 **EFFECTIVE DATE.** This section is effective the day following final enactment.

4.16 Sec. 6. **[462D.02] DEFINITIONS.**

4.17 Subdivision 1. **Definitions.** For purposes of this chapter, the following terms have the
4.18 meanings given.

4.19 Subd. 2. **Account holder.** "Account holder" means an individual who establishes,
4.20 individually or jointly with one or more other individuals, a first-time home buyer savings
4.21 account.

4.22 Subd. 3. **Allowable closing costs.** "Allowable closing costs" means a disbursement listed
4.23 on a settlement statement for the purchase of a single-family residence in Minnesota by a
4.24 qualified beneficiary.

4.25 Subd. 4. **Commissioner.** "Commissioner" means the commissioner of revenue.

4.26 Subd. 5. **Eligible costs.** "Eligible costs" means the down payment and allowable closing
4.27 costs for the purchase of a single-family residence in Minnesota by a qualified beneficiary.
4.28 Eligible costs include paying for the cost of construction of or financing the construction
4.29 of a single-family residence.

5.1 Subd. 6. **Financial institution.** "Financial institution" means a bank, bank and trust,
5.2 trust company with banking powers, savings bank, savings association, or credit union,
5.3 organized under the laws of this state, any other state, or the United States; an industrial
5.4 loan and thrift under chapter 53 or the laws of another state and authorized to accept deposits;
5.5 or a money market mutual fund registered under the federal Investment Company Act of
5.6 1940 and regulated under rule 2a-7, promulgated by the Securities and Exchange Commission
5.7 under that act.

5.8 Subd. 7. **First-time home buyer.** "First-time home buyer" means an individual, and if
5.9 married, the individual's spouse, who has no present ownership interest in a principal
5.10 residence during the three-year period ending on the earlier of:

5.11 (1) the date of the purchase of the single-family residence funded, in part, with proceeds
5.12 from the first-time home buyer savings account; or

5.13 (2) the close of the taxable year for which a subtraction is claimed under sections
5.14 290.0132 and 462D.06.

5.15 Subd. 8. **First-time home buyer savings account.** "First-time home buyer savings
5.16 account" or "account" means an account with a financial institution that an account holder
5.17 designates as a first-time home buyer savings account, as provided in section 462D.03, to
5.18 pay or reimburse eligible costs for the purchase of a single-family residence by a qualified
5.19 beneficiary.

5.20 Subd. 9. **Internal Revenue Code.** "Internal Revenue Code" has the meaning given in
5.21 section 290.01.

5.22 Subd. 10. **Principal residence.** "Principal residence" has the meaning given in section
5.23 121 of the Internal Revenue Code.

5.24 Subd. 11. **Qualified beneficiary.** "Qualified beneficiary" means a first-time home buyer
5.25 who is a Minnesota resident and is designated as the qualified beneficiary of a first-time
5.26 home buyer savings account by the account holder.

5.27 Subd. 12. **Single-family residence.** "Single-family residence" means a single-family
5.28 residence located in this state and owned and occupied by or to be occupied by a qualified
5.29 beneficiary as the qualified beneficiary's principal residence, which may include a
5.30 manufactured home, trailer, mobile home, condominium unit, townhome, or cooperative.

5.31 **EFFECTIVE DATE.** This section is effective the day following final enactment.

6.1 Sec. 7. **[462D.03] ESTABLISHMENT OF ACCOUNTS.**

6.2 Subdivision 1. **Accounts established.** An individual may open an account with a financial
6.3 institution and designate the account as a first-time home buyer savings account to be used
6.4 to pay or reimburse the designated qualified beneficiary's eligible costs.

6.5 Subd. 2. **Designation of qualified beneficiary.** (a) The account holder must designate
6.6 a first-time home buyer as the qualified beneficiary of the account by April 15 of the year
6.7 following the taxable year in which the account was established. The account holder may
6.8 be the qualified beneficiary. The account holder may change the designated qualified
6.9 beneficiary at any time, but no more than one qualified beneficiary may be designated for
6.10 an account at any one time. For purposes of the one beneficiary restriction, a married couple
6.11 qualifies as one beneficiary. Changing the designated qualified beneficiary of an account
6.12 does not affect computation of the ten-year period under section 462D.06, subdivision 2.

6.13 (b) The commissioner shall establish a process for account holders to notify the state
6.14 that permits recording of the account, the account holder or holders, any transfers under
6.15 section 462D.04, subdivision 2, and the designated qualified beneficiary for each account.
6.16 This may be done upon filing the account holder's income tax return or in any other way
6.17 the commissioner determines to be appropriate.

6.18 Subd. 3. **Joint account holders.** An individual may jointly own a first-time home buyer
6.19 account with another person if the joint account holders file a married joint income tax
6.20 return.

6.21 Subd. 4. **Multiple accounts.** (a) An individual may be the account holder of more than
6.22 one first-time home buyer savings account, but must not hold or own multiple accounts that
6.23 designate the same qualified beneficiary.

6.24 (b) An individual may be designated as the qualified beneficiary on more than one
6.25 first-time home buyer savings account.

6.26 Subd. 5. **Contributions.** Only cash may be contributed to a first-time home buyer savings
6.27 account. Individuals other than the account holder may contribute to an account. No limitation
6.28 applies to the amount of contributions that may be made to or retained in a first-time home
6.29 buyer savings account.

6.30 **EFFECTIVE DATE.** This section is effective the day following final enactment.

6.31 Sec. 8. **[462D.04] ACCOUNT HOLDER RESPONSIBILITIES.**

6.32 Subdivision 1. **Expenses; reporting.** The account holder must:

7.1 (1) not use funds in a first-time home buyer savings account to pay expenses of
 7.2 administering the account, except that a service fee may be deducted from the account by
 7.3 the financial institution in which the account is held; and

7.4 (2) submit to the commissioner, in the form and manner required by the commissioner:

7.5 (i) detailed information regarding the first-time home buyer savings account, including
 7.6 a list of transactions for the account during the taxable year and the Form 1099 issued by
 7.7 the financial institution for the account for the taxable year; and

7.8 (ii) upon withdrawal of funds from the account, a detailed account of the eligible costs
 7.9 for which the account funds were expended and a statement of the amount of funds remaining
 7.10 in the account, if any.

7.11 Subd. 2. **Transfers.** An account holder may withdraw funds, in whole or part, from a
 7.12 first-time home buyer savings account and deposit the funds in another first-time home
 7.13 buyer savings account held by a different financial institution or the same financial institution.

7.14 **EFFECTIVE DATE.** This section is effective the day following final enactment.

7.15 **Sec. 9. [462D.05] FINANCIAL INSTITUTIONS.**

7.16 (a) A financial institution is not required to take any action to ensure compliance with
 7.17 this chapter, including to:

7.18 (1) designate an account, designate qualified beneficiaries, or modify the financial
 7.19 institution's account contracts or systems in any way;

7.20 (2) track the use of money withdrawn from a first-time home buyer savings account;

7.21 (3) allocate funds in a first-time home buyer savings account among joint account holders
 7.22 or multiple qualified beneficiaries; or

7.23 (4) report any information to the commissioner or any other government that is not
 7.24 otherwise required by law.

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

7.26 (1) determining or ensuring that an account satisfies the requirements of this chapter or
 7.27 that its funds are used for eligible costs; or

7.28 (2) reporting or remitting taxes or penalties related to the use of a first-time home buyer
 7.29 savings account.

7.30 **EFFECTIVE DATE.** This section is effective the day following final enactment.

8.1 Sec. 10. **[462D.06] SUBTRACTION; ADDITION; ADDITIONAL TAX.**

8.2 **Subdivision 1. Subtraction.** (a) An account holder is allowed a subtraction from federal
8.3 taxable income equal to the sum of:

8.4 (1) the amount the individual contributed to a first-time home buyer savings account
8.5 during the taxable year not to exceed \$5,000, or \$10,000 for a married couple filing a joint
8.6 return; and

8.7 (2) interest or dividends earned on the first-time home buyer savings account during the
8.8 taxable year.

8.9 (b) The subtraction under paragraph (a) is allowed each year in which a contribution is
8.10 made for the ten taxable years including and following the taxable year in which the account
8.11 was established. The total subtraction for all taxable years and for all first-time home buyer
8.12 accounts established by the individual for a qualified beneficiary is limited to \$50,000. No
8.13 person other than the account holder who deposits funds in a first-time home buyer savings
8.14 account is allowed a subtraction under this section.

8.15 **Subd. 2. Addition.** (a) An account holder must add to federal taxable income the sum
8.16 of the following amounts:

8.17 (1) any amount withdrawn from a first-time home buyer savings account during the
8.18 taxable year and used neither to pay eligible costs nor for a transfer permitted under section
8.19 462D.04, subdivision 2; and

8.20 (2) any amount remaining in the first-time home buyer savings account at the close of
8.21 the tenth taxable year after the taxable year in which the account was established.

8.22 (b) For an account that received a transfer under section 462D.04, subdivision 2, the
8.23 ten-year period under paragraph (a), clause (2), ends at the close of the earliest taxable year
8.24 that applies to either account under that clause.

8.25 **Subd. 3. Additional tax.** The account holder is liable for an additional tax equal to ten
8.26 percent of the addition under subdivision 2 for the taxable year. This amount must be added
8.27 to the amount due under section 290.06. The tax under this subdivision does not apply to:

8.28 (1) a withdrawal because of the account holder's or designated qualified beneficiary's
8.29 death or disability; and

8.30 (2) a disbursement of assets of the account under federal bankruptcy law.

8.31 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December
8.32 31, 2016.

9.1 Sec. 11. APPROPRIATION; COMMISSIONER OF REVENUE.

9.2 \$ in fiscal year 2018 and \$ in fiscal year 2019 are appropriated from the general
9.3 fund to the commissioner of revenue to administer the first-time home buyer savings account
9.4 program.

9.5 EFFECTIVE DATE. This section is effective the day following final enactment.

9.6 Sec. 12. STATEMENT OF INTENT; TAX EXPENDITURES.

9.7 The provisions of this section fulfill the requirements of Minnesota Statutes, section
9.8 3.192, to provide a statement of purpose for a new or expanded tax expenditure and a goal
9.9 or standard against which its effectiveness may be measured. The purposes of the first-time
9.10 home buyer savings account program is to [.....]. The effectiveness of the program may
9.11 be measured by [.....].