First-time Home Buyer Savings Accounts

MontGuide 199918
Revised August 2017

First-time Home Buyers Savings Accounts (FTHB)

- Montana law
  - Not federal

Who is eligible?

- Montana taxpayers who have not previously purchased a single family residence.

Single family residence

- Home
- Condo
- Townhouse
- Modular home
- Mobile home on a Permanent foundation

Prior ownership of mobile or modular home

- A mobile, manufactured, or modular home that was not on a permanent foundation
  - Not considered a previous home

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Tax Impact

• Deposits are not subject to Montana income taxation

Annual Contribution Amounts: Maximum

• $3,000 for each taxpayer
• $6,000 married couple

Deposits for 4 years

• $3,000 deposited each year
  ▪ 2015
  ▪ 2016
  ▪ 2017
  ▪ 2018
• Total $12,000

Home Purchase

• 2017 Buy home
• $12,000 withdrawal for down payment
• Not subject to Montana income tax

Madeline and Walt

• First year
  ▪ Deposited $6,000 in first-time homebuyer savings account

Tax Impact Madeline and Walt

Gross Income       $ 46,000
FTHB Deposit       -$ 6,000
Adjusted Gross Income  $ 40,000
**Tax Impact**

- Montana taxes saved depend on tax bracket

**Montana Tax Example**

- 6.9% bracket (2017)
- Taxable income more than $17,600
- $3,000 x .069 = $207
  Tax savings

**Tax Brackets & Rates Montana- 2017**

<table>
<thead>
<tr>
<th>At Least</th>
<th>But less Than</th>
<th>Then your tax is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>$2,900</td>
<td>1%</td>
</tr>
<tr>
<td>$2,900</td>
<td>$5,200</td>
<td>2%</td>
</tr>
<tr>
<td>$5,200</td>
<td>$7,900</td>
<td>3%</td>
</tr>
<tr>
<td>$7,900</td>
<td>$10,600</td>
<td>4%</td>
</tr>
<tr>
<td>$10,600</td>
<td>$13,600</td>
<td>5%</td>
</tr>
<tr>
<td>$13,600</td>
<td>$17,600</td>
<td>6%</td>
</tr>
<tr>
<td>$17,600 or more</td>
<td></td>
<td>6.9%</td>
</tr>
</tbody>
</table>

www.revenue.mt.gov

**To keep Montana tax benefits**

- Withdrawals must be used for **eligible** first-time home buyer expenses

**Eligible Expenses**

- Down payment
- Closing costs
- Realtor fees

**Eligible Expenses**

- Appraisal costs
- Credit history report
- Points
Eligible Expenses

- Pro-rated property taxes
- Loan origination fees

Where to establish?

- Bank
- Savings Bank
- Credit Union

Where to establish?

- Trust company
- Mutual fund company
- Brokerage firm

First-time home buyer account

- Must be separate from other accounts

Non-related individuals

- Unrelated individuals can use their separate home buyer savings accounts to purchase a home:
  - First home for each purchaser

Minimum Time Period

- Must be established prior to purchase of qualifying home
  - Open account before closing on residence
Maximum Time

• Can leave money in account up to 10 years

After 10-year period

• Principal & interest remaining in account on Dec. 31 of the last year
  ▪ Taxed as ordinary income

Interest Rate

• Determined by Financial Institution
  ▪ Earnings are:
    ➢ Not subject to annual Montana income taxation
    ➢ Must be reported on federal return

Reporting Requirement

• File annual report with Montana Income Tax Return

Department of Revenue

• www.revenue.mt.gov
• Look for 2017 Tax Forms
  ▪ Individual Income Tax
    ➢ FTB, under Supplemental Forms & Instructions

Ineligible Withdrawals

• Subject to 10% penalty
• Counted as taxable income at state level
Ineligible Withdrawals

• Exception Rules

No 10% penalty

1. Non-eligible withdrawal made on last business weekday of December

No 10% Penalty

2. Withdrawal due to death of account holder

No 10% Penalty

3. Direct transfer to another first-time home buyer account with different financial institution

Penalties for False Claims

• Theft
• Felony

Death of Account Holder

• Passes to heirs:
  • POD Beneficiary
  • Written Will
  • Intestacy Statutes
Incapacitation of Account Holder

- Power of attorney
- Conservatorship

MontGuide on the Web

- www.msuextension.org
- Search on “First-time home buyer accounts”

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