

# First-time Home Buyer Savings Accounts

MontGuide  
199918

Revised August 2017

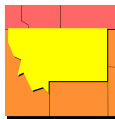


Marsha A. Goetting  
Ph.D., CFP®, CFCS

Professor & Extension Family  
Economics Specialist

## 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



## 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	<u>-\$ 6,000</u>
Adjusted Gross Income	\$ 40,000



## Tax Impact



- **Montana taxes saved depend on tax bracket**

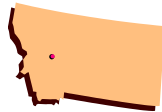
13

## Tax Brackets & Rates Montana- 2017

At Least	But less Than	Then your tax is:
\$0	\$2,900	1%
\$2,900	\$5,200	2%
\$5,200	\$7,900	3%
\$7,900	\$10,600	4%
\$10,600	\$13,600	5%
\$13,600	\$17,600	6%
\$17,600 or more		6.9%

www.revenue.mt.gov

## Montana Tax Example



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

15

## To keep Montana tax benefits

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



16

## Eligible Expenses

- **Down payment**
- **Closing costs**
- **Realtor fees**



17

## Eligible Expenses

- **Appraisal costs**
- **Credit history report**
- **Points**



18

## Eligible Expenses



- Pro-rated property taxes
- Loan origination fees

19

## Where to establish?

- Bank
- Savings Bank
- Credit Union



20

## Where to establish?



- Trust company
- Mutual fund company
- Brokerage firm

21

## First-time home buyer account



- Must be separate from other accounts

22

## Non-related individuals



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

23

## Minimum Time Period



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

24

## Maximum Time

- Can leave money in account up to 10 years



25

## After 10-year period

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



26

## Interest Rate

- Determined by Financial Institution

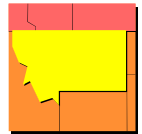
- Earnings are:

- Not subject to annual Montana income taxation
- Must be reported on federal return



27

## Reporting Requirement



- File annual report with Montana Income Tax Return

28

## Department of Revenue

- [www.revenue.mt.gov](http://www.revenue.mt.gov)
- Look for 2017 Tax Forms
  - Individual Income Tax
    - FTB, under Supplemental Forms & Instructions



29

## Ineligible Withdrawals

- Subject to 10% penalty
- Counted as taxable income at state level



30

## 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



37

## MontGuide on the Web



- [www.msuextension.org](http://www.msuextension.org)
- Search on "First-time home buyer accounts"

38

## First-time Home Buyer Savings Accounts

MontGuide  
199918



Revised August 2017

39