

# Alabama First-Time and Second Chance Home Buyer Savings Account

## Who is considered a first time or second chance home buyer?

A first time or second chance home buyer is an Alabama resident who has not owned or purchased any home either individually or jointly within ten years prior to purchasing a first-time home in Alabama. Individuals who currently own a home including a home which is rented will not qualify as a first-time or second chance home buyer.

## What is an Alabama First-Time and Second Chance Home Buyer Savings Account?

An Alabama First-Time and Second Chance Home Buyer Savings Account is a regular savings account established by an Alabama resident on or after January 1, 2019 at a financial institution as an incentive to help first-time and second chance home buyers plan and save funds for a down payment and closing costs on the purchase of a first home in Alabama. The account should be designated by the financial institution as a first-time and second chance home buyer savings account.

## How long does an individual have to open a first-time or second chance home buyers savings account?

An individual must open a first-time or second chance home buyers savings account between January 1, 2019 and March 28, 2023 when the law terminates.

## How do you establish a first-time and second chance home buyer savings account?

A first-time and second chance home buyer savings account is established by:

- Opening a separate savings account at a financial institution for the sole purpose of holding funds for a down payment and closing costs for the purchase of a first home in Alabama, AND
- Labeling the account as a “first-time and second chance home buyer savings” account in the name of the account holder(s) shown in the financial institution’s records or in their own written documentation recorded contemporaneously with the opening of the account.

## Can I make deductible first-time and second chance home buyer savings contributions to an existing savings account that contains funds held for a separate purpose?

No. First-time and second chance home buyer savings must be segregated into a new savings account labeled as a first-time and second chance home buyer savings account.

## How do I label a savings account a “first-time and second chance home buyer savings” account?

If possible, use the term “first-time and second chance home buyer savings” in the financial institution’s records. If the financial institution does not provide that option, the taxpayer may label the account a “first-time and second chance home buyer savings” account in his or her

own documentation. This documentation should be recorded contemporaneously with the establishment of the account on or after January 1, 2019.

**How many first-time and second chance home buyer savings accounts can you establish?**

A taxpayer may establish only one qualified first-time and second chance home buyer savings account and only the funds related to the first-time and second chance home buyer savings account may be deposited into this account.

**Are first-time and second chance home buyer savings accounts only available for Alabama residents?**

Yes. A first-time and second chance home buyer savings account is only available for Alabama residents who have not owned or purchased individually or jointly a home ten years prior to the purchase of a first-time home in Alabama.

**Is there a limit to the amounts which can be contributed to a first-time and second chance home buyer savings account?**

No. There is no limit to the annual amount of deposits to a first-time and second chance home buyer savings account, but the annual deduction which can be claimed on a taxpayer's return is limited to the lesser of the actual contributions for the tax year or \$5,000 if filing single or \$10,000 if filing jointly.

**How many years is the deduction to a first-time and second chance home buyer savings account available?**

Taxpayers may make contributions for up to five years to a first-time and second chance home buyer savings account that is opened on or after January 1, 2019. The deduction for contributions made to a first-time and second chance home buyer savings account shall be claimed in the year of contribution. The five-year period shall begin in the origination year of the first-time and second chance home buyer savings account.

**What is the maximum amount a taxpayer may claim as a deduction on their tax return for contributions made to a first-time and second chance home buyer savings account?**

Annual deductions on a tax return are limited to the lesser of the actual annual deposits to a first-time and second chance home buyer savings account or \$5,000 if filing single or \$10,000 if filing jointly. The deduction is available for the 5 years in which deposits were made into a first-time and second chance home buyer savings account for a maximum of \$25,000 if filing single or \$50,000 if filing jointly.

**Can someone contribute to a first-time and second chance home buyer savings account on behalf of someone else and take the deduction?**

No. Only the account holder(s) are eligible for a deduction on their tax return for any contributions made to a first-time and second chance home buyer savings account.

**Can first-time and second chance home buyer savings account funds be used for purposes other than a down payment and closing costs on the purchase of a first home in Alabama?**

No. For taxpayers who have taken a deduction on their tax return for deposits made to a first-time and second chance home buyer savings account, any withdrawals other than to purchase a first-time home in Alabama requires the account holder(s) to include the entire balance of the account and accumulated interest plus a 10% penalty of withdrawn funds on their tax return in the year withdrawn. **It is important for taxpayers to understand that any amounts withdrawn which aren't used for a down payment or closing costs on a first-time home requires inclusion of all funds, earnings on the fund, and a penalty on their return.** This is not a savings account to be used as needed for home repairs or circumstances other than those for which it was designed.

**What documentation must be included on a taxpayer's return in the year in which a deduction is taken?**

Any taxpayer taking a deduction on their return for a first-time and second chance home buyer savings account must submit documentation in the form of an annual reconciliation from their financial institution showing deposits made to their first-time and second chance home buyer savings account for the tax year.

**What documentation must be included when the funds are used for a down payment or closing costs for their first home in Alabama?**

On or before the end of the fifth year, funds from the first-time and second chance home buyer savings account must be used to purchase a first home in Alabama. A closing statement as well as an annual statement from the account holder's financial institution must be included with their return in the year in which the funds are withdrawn.

**What happens if the accumulated funds in the first-time and second chance home buyers savings account are not used for a down payment or closing costs for the purchase of a new home in Alabama by December 31<sup>st</sup> of the fifth year.**

All funds in the first-time and second chance home buyer's savings account not expended for eligible costs by December 31<sup>st</sup> of the last year of the five-year period are required to be included as income on the taxpayers return for the fifth year.