

Montana First-Time Home Buyer Savings Account

Qualifying taxpayers may exclude contributions made to accounts established specifically to pay eligible costs associated with the purchase of a taxpayer's first home. A qualifying taxpayer (first-time home buyer) is "an individual who has never owned or purchased under contract for deed, either individually or jointly, a single-family residence in Montana or out-of-state". Eligible costs include "the down payment and allowable closing costs for the purchase of a single-family residence in Montana by a first-time home buyer".

The maximum exclusion per year per individual is \$3,000. Contributions in excess of \$3,000 may be claimed as a reduction from Montana adjusted gross income in subsequent tax years, however, the maximum contribution deduction allowed in any one tax year is \$3,000.

Married couples may each claim a first-time home buyer savings account reduction of up to \$3,000 if they maintain separate accounts. Jointly held accounts do not qualify as first-time home buyer accounts unless husband and wife file jointly (both using the same column of the tax return) for Montana tax purposes.

In addition to deducting up to \$3,000 in contributions to a first-time home buyer savings account, interest earned on an account is excludable from Montana adjusted gross income.

No first-time home buyer reductions are allowed after a home is purchased. Any funds remaining in an account after a home is purchased must be included in Montana adjusted gross income in the year the home is purchased. Funds remaining in an account after the purchase of a home are not includable in Montana adjusted gross income if the funds were not claimed as a first-time home buyer reduction.

First-time home buyer savings accounts are self-administered and can be established with any financial or investment institution. The account must be a new account established in the first year the reduction is claimed. The account cannot be used for any purpose other than for paying qualifying expenses related to the purchase of a first home qualifying for the first-time home buyer provision.

If, after 10 years of making contributions to an account, a taxpayer has not purchased a home, funds in a first-time home buyer savings account will become subject to Montana income tax as ordinary income.

Withdrawals from first-time home buyer savings accounts used for purposes other than qualifying first-time home purchase expenses are subject to state taxation as ordinary income and are also subject to a 10% withdrawal penalty. Money withdrawn from an account on the last business day of the tax year is not subject to the 10% penalty, however it is subject to state taxation.

Taxpayers claiming this exclusion must attach to their return each year:

- Copies of all account statements (monthly, quarterly, annual) from the financial or investment institution where the account is maintained.
- A completed Form FTB.

For the year in which a home is purchased, taxpayers claiming the first-time home buyer savings account reductions must also attach to their tax return, copies of the buy/sell agreement and the closing statement for the home purchased.

Additionally, upon the Department of Revenue's request, account holders must be able to provide verification that all withdrawals from an account were used to pay qualifying expenses associated with the purchase of a first home.