



D **R** Rhode Island Department of Revenue
Division of Taxation

Via Electronic Mail

April 23, 2024

The Honorable Marvin L. Abney
Chair, House Committee on Finance
Rhode Island State House
Providence, RI 02903

RE: Letter Regarding House Bill 7673 – An Act Relating to Property – First Time Home Buyer Savings Program Act

Dear Chair Abney:

I am writing on behalf of the Rhode Island Department of Revenue, Division of Taxation (“Division”), to: i) express concerns regarding issues with proposed House Bill 7673 as currently drafted; ii) explain the background and current statutory context in order to clarify the intended and unintended consequences of this bill; and iii) make recommendations and request your support in implementing those recommendations.

This letter is not intended as a position in support of or opposition to the bill, but only as recommendations on drafting to provide clarity in the bill and to aid tax administration and compliance.

As you know, this bill would amend Title 34 of the Rhode Island General Laws, entitled “Property,” by adding a new chapter, Chapter 34-50, entitled “First-Time Homebuyer Savings Program Act.” The amendment would create a first time home buyer savings program for the sole purpose of saving money for the purchase of a first home. The bill would also amend R.I. Gen. Laws § 44-30-12, entitled “Personal Income Tax – Rhode Island income of a resident individual,” by adding to the list of modifications reducing federal adjusted gross income (“AGI”) a modification for a taxpayer participating in the program. A taxpayer would be permitted to subtract from their AGI a program contribution amount of up to \$50,000 and up to \$150,000 of interest and dividends included in their AGI. Per the bill’s language, the modification would only be permitted if the principal and earnings of the program account remain in the account until a withdrawal is made for eligible costs related to the purchase of a home by a first-time homebuyer. If withdrawals from a first-time homebuyer savings account occur by an account holder for a purpose other than for a qualified purchase of a first home, the modifications to the taxpayer’s AGI would be forfeited and the participant taxed at the normal tax rate. The bill’s effective date is upon passage.

There are several potential issues with the bill that impact tax administration, including, but not limited to:

- As currently drafted, in addition to general drafting errors that require addressing, the bill's language is extremely broad. The Division respectfully requests clarification on the following:
 - It is unclear why the Division was included in the amendment to R.I. Gen. Laws § 34-50-1 as the Division does not have the authority to establish accounts or funds.
 - It is unclear whether the interest and dividends allowed to be deducted by a taxpayer are only those earned on the first-time homebuyer account.
 - There are no temporal parameters for the contributions or modifications. For example, whether the modification is allowed to be taken each year or only once (when the money is withdrawn from the account and presumably used to purchase a home) is not specified.
 - The modification terms are ambiguous and could result in fraud. The amendment to 44-30-12(c) should at the very least reference the statutes establishing the fund/account.
 - The terms "first time home buyer" and "interest and dividend income" are overly broad and require clarification and/or definitions.
 - The bill is silent on the treatment of a joint savings account, including what limits would be effective and how the monies must be treated in the event that the withdrawal is for non-qualified purposes and at a different filing status than when the monies were deposited.
- The bill, as currently drafted, may result in unintended consequences. The bill does not include a penalty for withdrawal for non-qualified purposes. Instead, it adds the income back into the AGI. Without an additional penalty, this can be used as an income deferral device. Additionally, it is unclear how this would be enforced or monitored for compliance.
- The bill is effective upon passage, which would cause administrability issues for the Division and may also cause confusion to taxpayers, tax preparers, and tax software providers. The Division would respectfully request that the bill's language involving the effective date be changed to specify the tax year to which the new modification may first be taken, such as for tax years beginning on or after January 1, 2025.

The Division takes no position with respect to the remainder of the proposed legislation. Rather, the Division is concerned solely with the issues of clarity, tax compliance, and tax administration. As such, the Division respectfully suggests that the bill be redrafted for clarity.

I look forward to working with you to address the issues raised in this letter and appreciate your consideration.

Very truly yours,



Neena S. Savage
Tax Administrator

cc: The Honorable Members of the House Committee on Finance (via:
HouseFinance@rilegislature.gov)
The Honorable Brian C. Newberry (rep-newberry@rilegislature.gov)
Nicole McCarty, Esquire, Chief Legal Counsel to the Speaker of the House
Lynne Urbani, Director of House Policy
Thomas A. Verdi, Director, Department of Revenue