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First-Time Homebuyer Savings Accounts

A First-time Homebuyer Savings Account ('FHSA') allows any Coloradan to set aside up to $50,000 toward the costs of purchasing a new home. The earnings on those funds — interest and capital gains — are free from Colorado state taxes forever.

FHSAs are a great way for future homeowners to start saving early for the costs of buying a home.

These accounts are simple and easy to set up. Not only can you open a new one, you can also transfer money from one existing FHSA account to another FHSA. To create an FHSA, you simply include a form when you file your state taxes designating the qualified beneficiary (a qualified beneficiary can be a child or grandchild, or the account holder may designate himself or herself as the qualified beneficiary).

After you use the money toward the "eligible expenses" on a first home (yours or someone else's — see below), you will show documentation to the Department of Revenue that the funds were put toward an "eligible expense."

Q: What kinds of accounts can be FHSAs?

A: Almost any account you have with a financial institution that offers FHSAs: mutual funds, CDs, brokerage (stocks, bonds, etc.), money markets, insurance, even a savings account.

Q: How much can I put in a FHSA account?

A: You can contribute up to a total of $50,000 in principal, and the account can grow in value up to $150,000. There will be an annual contribution cap of $14,000 ($28,000 if filing jointly). There is no limit on how long the account can exist.

Q: What can I use the money for?

A: A FHSA account can be used to pay for just about anything related to closing on a home — anything included on the settlement statement: closing costs, inspections, lender fees, etc. These are all considered "eligible expenses."

Q: Who is considered a first-time home buyer?

A: A first-time buyer is: someone who has never purchased a home before. That includes single-family homes, condos, coops, townhouses, or mobile homes, (it does not include land or commercial property). If you owned a home at some point but did not *purchase* one — e.g., if you inherited — you can still qualify. It also includes someone divorced who may previously have owned a home with their spouse, and has not been listed on a property title for at least three years.

Q: Can I use the money to pay for someone else's closing costs?

A: Yes. As long as the person you're giving the money to (e.g., child, grandchild, niece, and even a close friend) is a qualified first-time homebuyer.

Q: Can I use my FHSA funds if I'm buying a home with someone who is not a first-time buyer (e.g., a spouse who once bought a home)?

A: Yes, as long as you qualify as a first-time buyer.

Q: What if I move out of Colorado?

A: Eligible expenses only apply to a first time home purchase in Colorado. However, tax penalties will not be applied if the money is used for eligible expenses related to a first-time home purchase outside the state.

Q: What if I die?

A: The account would be handled like any other part of your estate, but the income that was not taxed would be subject to recapture. However, no tax penalties will be applied.

Scenarios

There are lots of scenarios or "use cases" where a FHSA makes sense. Here are several simple scenarios:

Funding for a child

Phillip and Leigh put $10,000 into a mutual fund that they will use to help their son buy his first home. The money grows over the years. When their son is 26, he decides to buy a home. They sell the shares in the fund — now worth $18,500 — and give it to their son to help with his down payment.

Normally they would pay state tax on the $8,500 in earnings, but they file a FHSA form with their Colorado taxes and don't have to pay a cent in state taxes.

Taxes on the interest

Alfonzo and Patricia take $1,000 they received as a wedding gift and open a money market account at their bank. They plan to use it towards the closing costs of their first home. Over the next several years they add money when they can, eventually using it towards their closing costs when they buy their first home.

Each year, Alfonzo and Patricia filed their Colorado taxes, they claimed FHSA status as part of their state tax returns, so they are exempt from state tax for all the earnings on that account so long as they use the funds for an "eligible expense".

Changing your mind

Emma decides to start putting money away for a first home when she graduates college. She opens a high-yield savings account with a few hundred dollars and adds to it when she can over the next 12 years. The account grows.

Each year, Emma files an FHSA form with the Department of Revenue so she doesn't have to pay Colorado tax on the interest she's earned.

Then Emma marries Sam, and Sam already owns a house. She won't need the money after all. They decide to use it for a vacation instead.

Because Emma used the money for a non-eligible purpose — the vacation — Emma must now pay the tax recapture on the 12 years of earnings on the account, as well as a ten percent penalty on the amount of the earnings over that 12-year period.