First-Time Homebuyer Savings Plans

A First-time Homebuyer Savings Plan allows any Virginian to set aside up to $50,000 toward the costs of closing on a new home. The earnings on those funds — interest and capital gains — are free from Virginia state taxes forever.

FHSPs 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 designate almost any existing account as an FHSP. To create an FHSP, you simply include a form when you file your state taxes. (It will indicate that you should not be taxed on any earnings — e.g., interest or capital gains — because of the account's FHSP status.)

After you use the money toward the closing costs on a first home (yours or someone else's — see below), you send in a different form to the Department of Taxation showing that the funds were put toward an "eligible cost."

Q: What kinds of accounts can be FHSPs?

A: Almost any account you have with a financial institution: mutual funds, CDs, brokerage (stocks, bonds, etc.), money markets, insurance, even a savings account. FHSPs can also include individual stocks.

Q: How much can I put in a FHSP 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. You can put that $50,000 in all at once, or you can contribute over the years. There is no limit on how long the account can exist.

Q: What can I use the money for?

A: A FHSP 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 costs."

Q: What 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.

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 first-time homebuyer.

Q: Can I use my FHSP 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 Virginia?

A: Eligible costs only apply to a first time home purchase in Virginia.

Q: What if I die?

A: The account would be handled like any other part of your estate, but the beneficiary of the account would not have to pay taxes on the assets in the account. This is sometimes referred to as a "stepped-up basis," which generally happens when a person dies and real estate transfers to his heirs.

Scenarios

There are lots of scenarios or "use cases" where a FHSP 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 FHSP form with their Virginia 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 Virginia taxes, they claimed FHSP 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 cost".

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 FHSP form with the Department of Taxation so she doesn't have to pay Virginia 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 back taxes on the 12 years of earnings on the account, as well as a five percent penalty on the amount of the earnings over that 12-year period.