Income Tax Topics: Employer Contributions to Home Savings Accounts

COLORADO
Department of Revenue
Taxation Division

For income tax year commencing on or after January 1, 2024, but before January 1, 2027, employers may claim a credit for contributions they make to their employees' qualifying home savings accounts. Employees may claim a subtraction for employer contributions to their accounts, to the extent those employer contributions are included in the employee's federal taxable income. Both the credit and the subtraction are subject to recapture under certain circumstances.

This publication is designed to provide general guidance regarding employer contributions to home savings accounts and to supplement guidance provided in the Colorado Individual Income Tax Guide and the Colorado Corporate Income Tax Guide. Nothing in this publication modifies or is intended to modify the requirements of Colorado's statutes and regulations. Taxpayers are encouraged to consult their tax advisors for guidance regarding specific situations.

Qualifying home savings accounts

Any employer with one or more employees in Colorado may establish one or more qualifying home savings accounts for their employees. Employees may use funds deposited in their accounts for eligible expenses in connection with their purchase of a property for their primary resident. Eligible expenses are any down payment and any closing costs included on a real estate settlement statement, including but not limited to appraisal fees, mortgage origination fees, and inspection fees.

Employers may make contributions to their employees' accounts. Additionally, employees may authorize an employer to withhold and deposit in their account a portion of their earnings.

Employers who establish qualifying home savings accounts must develop policies for the accounts, including procedures for each of the following:

- employer contributions;
- employee contributions the employer withholds from their earnings; and
- employee withdrawals for eligible expenses.

Employer credit

For any income tax year commencing on or after January 1, 2024, but before January 1, 2027, an income tax credit is allowed to any employer that makes a monetary contribution to an employee's qualifying home savings account during the income tax year. Subject to multiple limitations, the credit is equal to 5% of the amount of the employer contribution. An employer cannot claim a credit of more than $5,000 for any one employee or a total credit of more than $500,000 for any tax year.

Required recordkeeping

An employer that claims a credit must keep records related to the credit. Notwithstanding any other requirements of the department, records maintained by an employer must show:

- the number of employees to whom the employer made employer contributions in the tax year;
- the amount the employer contributed to each employee during the tax year;
- the number of employees who expended money from a savings account during the tax year for eligible expenses for a home purchase; and
- the total amount of any employer contributions that an employee has forfeited during the tax year as described later in this publication.

Credit carryforward

If the amount of the credit allowed exceeds the amount of income taxes otherwise, the amount of the credit that exceeds the tax may be carried forward to the following tax year. Credits may be carried forward up to five years but must be applied first to the earliest income tax year possible. Any credit remaining after the period may not be refunded or credited to the employer.

Employee subtraction

For tax years 2024 through 2026, individuals may claim a subtraction for any employer contribution received from the employer and included in the employee's federal taxable income. Employees may not claim any subtraction for contributions they make to their own accounts.

Recapture

Both the credit claimed by the employer and the subtraction claimed by the employee are subject to recapture in the following circumstances:

- the employee ends their employment with the employer; or
- the employee uses the money they contributed to the account for something other than an eligible expense.

In either of these situations, the employee forfeits all of the employer contributions made to the account along with any interest earned thereon. The employer must disburse to the employee any remaining amount of employee contributions in the account plus any interest earned thereon.

The employer must repay the entire amount of the credit previously claimed for employer contributions to the account. The recapture of the prior year credits must be reported on the applicable line of the employer's return.

The employee must report as an "other addition" on their Colorado return the full amount of employer contributions that the employee previously subtracted on prior years' returns.

Additional resources

The following is a list of statutes, regulations, forms, and guidance pertaining to employer contributions to qualifying home savings accounts. This list is not, and is not intended to be, an exhaustive list of authorities that govern the tax treatment of every situation. Individuals and businesses with specific questions should consult their tax advisors.

Statutes and regulations

- § 39-22-558, C.R.S. Tax credit for employer's contribution to employee for eligible expenses in connection with a qualifying home purchase.

Forms and guidance

- Tax.Colorado.gov
- Colorado Individual Income Tax Guide
- Colorado Corporate Income Tax Guide