**HB 953**

# Department of Legislative Services

Maryland General Assembly
2015 Session

## FISCAL AND POLICY NOTE

House Bill 953 (Delegate Hixson, *et al.*)
Ways and Means

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**Income Tax - Subtraction Modification - First-Time Homebuyer Savings Accounts**

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This bill allows a taxpayer to designate an account with a financial institution as a first-time homebuyer savings account. An eligible account holder may claim a subtraction modification for (1) the amount contributed, up to $5,000, during the tax year to a designated account and (2) the earnings, including interest and other income on the principal, from the designated account during the tax year. The subtraction modification may be claimed for up to 10 years and for a maximum earnings amount of $50,000 during this 10-year period.

The bill takes effect July 1, 2015, and applies to tax year 2015 and beyond.

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## Fiscal Summary

**State Effect:** General fund revenues decrease beginning in FY 2016 due to eligible contributions and earnings being claimed against the State income tax. Revenue losses may be significant if a large number of individuals establish eligible accounts. General fund expenditures increase by $163,900 in FY 2016 due to implementation costs at the Comptroller's Office.

**Local Effect:** Local income tax revenues may decrease significantly beginning in FY 2016 due to subtraction modifications claimed against the State income tax. Expenditures are not affected.

**Small Business Effect:** Minimal.

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## Analysis

**Bill Summary:** The bill allows a taxpayer to designate an account with a financial institution as a first-time homebuyer savings account (designated account). The taxpayer may make this designation beginning in tax year 2015 for the sole purpose of paying or reimbursing eligible costs for the purchase of a home in the State by a qualified beneficiary. A qualified beneficiary is an individual, including an account holder, who purchases a single-family home as a principal residence in the State and (1) has not owned or purchased, either individually or jointly, a home in the State in the last seven years and (2) is designated as the beneficiary of a first-time homebuyer savings account. An account holder is an individual who establishes, individually or jointly with other individuals, a designated account. Eligible costs include the down payment and eligible closing costs for the purchase of a home in the State by a qualified beneficiary.

An account holder may claim a subtraction modification for (1) the amount contributed, up to $5,000, during the tax year to a designated account and (2) the earnings, including interest and other income on the principal, from the designated account during the tax year. The subtraction modification may be claimed for up to 10 years and for a maximum earnings amount of $50,000 during this 10-year period.

In order to continue to qualify for the subtraction modification, the principal and earnings must remain in a designated account until the beneficiary purchases an eligible home, unless the earnings and principal are rolled over into another designated account. A person other than an account holder who transfers money into the designated account may not claim the subtraction modification. The account holder is required to use the funds in the designated account within 15 years following the date on which the account was established. At the end of the 15-year period, the remaining funds for which a subtraction modification has not been claimed are subject to taxation as ordinary income.

If the account holder withdraws any funds from the account for an ineligible purpose, the funds are taxed as ordinary income and the account holder is subject to a 10% penalty unless the account holder has filed for bankruptcy protection. A financial institution may not be held responsible for the use or application of funds deposited in or withdrawn from the account and may use funds held in the designated account for paying administrative costs.

A taxpayer claiming the subtraction modification must submit specified information to the Comptroller. The Comptroller is required to adopt regulations implementing the bill.

**Current Law/Background:** No similar State income tax subtraction modification exists. Federal income tax law provides for certain tax benefits for homebuyers. These include itemized deductions for eligible real estate taxes paid and qualified home mortgage interest and mortgage insurance premiums paid. These federal benefits can flow through and typically cause a reduction in State income taxes.

**Background:** First-time homebuyers were eligible to claim a federal income tax credit for eligible purchases of a new home made after April 8, 2008, but before May 1, 2010. Several jurisdictions have established first-time homebuyer savings account programs, including California, Connecticut, Montana, and Virginia.

**State Revenues:** Subtraction modifications can be claimed beginning in tax year 2015. As a result, general fund revenues will decrease beginning in fiscal 2016. The amount of revenue loss depends on the number of designated accounts established, the amount contributed to each fund, and the eligible earnings that can be exempted from the State income tax. Contributions and earnings will generally be subject to federal taxation.

The Comptroller's Office advises that during fiscal 2014, 60,900 houses were sold in the State. Nationally, about 38% of all houses are typically purchased by first-time homebuyers. Revenue losses may be significant if a large number of individuals establish eligible accounts. The Comptroller's Office estimates that general fund revenues may decrease by about $14 million in fiscal 2016 if one-half of eligible first-time homebuyers participate in the program.

**State Expenditures:** The Comptroller's Office advises that it will incur additional costs beginning in fiscal 2016 as a result of hiring one revenue examiner and incurring programming expenses. As a result, general fund expenditures increase by $163,900 in fiscal 2016, which reflects a January 1, 2016 hiring date. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

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| Position | 1 |
| Salary and Fringe Benefits | $31,195 |
| Operating Expenses | 4,578 |
| Programming Expenditures | 128,160 |
| **Total FY 2016 Expenditures** | **$163,933** |

Future year expenditures reflect a full salary with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

**Local Revenues:** Local income tax revenues decrease by about 3% of the total net State subtraction modification claimed in tax year 2015. Under the assumptions above, local income tax revenues may decrease by $8.7 million in fiscal 2016.

## Additional Information

**Prior Introductions:** None.

**Cross File:** SB 372 (Senator Feldman, *et al.*) - Budget and Taxation.

**Information Source(s):** Comptroller's Office, Department of Legislative Services

**Fiscal Note History:** First Reader - March 8, 2015
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