Department of Legislative Services

Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 1178 (Delegate Brooks)

Ways and Means Budget and Taxation

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 taxable 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 the 10-year period. **The bill takes effect July 1, 2021, and applies to tax year 2021 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease beginning in FY 2022 due to eligible contributions and earnings being claimed against the State income tax. The Comptroller's Office estimates that revenues will decrease by $224,000 in FY 2022 and by $1.4 million in FY 2026. General fund expenditures may increase by $127,100 in FY 2022 due to implementation costs at the Comptroller's Office.

(in dollars)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
GF Revenue	($224,000)	($514,000)	($794,000)	($1,094,000)	($1,436,000)
GF Expenditure	$127,100	$59,300	$61,000	$63,300	$65,600
Net Effect	($351,100)	($573,300)	($855,000)	($1,157,300)	($1,501,600)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: Local income tax revenues decrease by $142,000 in FY 2022 and by $907,000 in FY 2026. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

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

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 account holder 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 are subject to taxation as ordinary income under certain circumstances.

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 designated account funds to pay administrative costs. A financial institution must provide each account holder, in the manner specified by the Department of Housing and Community Development (DHCD), certain information about homebuyer education and housing counseling programs and services.

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

DHCD must conduct outreach to communities of the State that have experienced lower rates of home ownership regarding the availability of the program established by the bill.

Current Law: No similar State income tax subtraction modification exists.

Federal income tax law provides several benefits to promote home ownership. These include itemized deductions for eligible real estate taxes paid and qualified home mortgage interest and mortgage insurance premiums paid.

To pay for a house down payment, homebuyers may withdraw certain amounts from a Roth Individual Retirement Account (IRA) or standard IRA if certain conditions are met. Homeowners can also withdraw money from a 401(K), subject to a potential penalty, or borrow against the value of the account.

Numerous federal, State, and local programs provide home down payment assistance.

State Revenues: Subtraction modifications can be claimed beginning in tax year 2021. As a result, general fund revenues will decrease beginning in fiscal 2022. The amount of the revenue loss depends on the number of designated accounts established, the amount contributed to each account, and the eligible earnings that can be exempted from the State income tax. Contributions and earnings will generally be subject to federal taxation.

Based on the requirements of the bill, the Comptroller's Office estimates that general fund revenues will decrease by $224,000 in fiscal 2022 and by $1.4 million in fiscal 2026. **Exhibit 1** shows the estimated impact of the bill on State and local revenues.

Exhibit 1
State and Local Revenue Impacts

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
State	($224,000)	($514,000)	($794,000)	($1,094,000)	($1,436,000)
Local	(142,000)	(325,000)	(501,000)	(691,000)	(907,000)
Total Revenues	**($366,000)**	**($839,000)**	**($1,295,000)**	**($1,785,000)**	**($2,343,000)**

State Expenditures: The Comptroller's Office may incur additional costs beginning in fiscal 2022 as a result of hiring one revenue examiner and incurring programming expenses. As a result, general fund expenditures may increase by $127,100 in fiscal 2022, which reflects a July 1, 2021 hiring date. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1
Salary and Fringe Benefits	$61,310
Operating Expenses	5,745
Programming Expenditures	60,000
Total FY 2022 Expenditures	**$127,055**

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

General fund expenditures may increase beginning in fiscal 2022 at DHCD in order to conduct an outreach campaign. Assuming a modest outreach campaign, DHCD can likely implement the campaign within existing budgeted resources.

Local Revenues: Based on the assumptions above, local income tax revenues will decrease by $142,000 in fiscal 2022 and by $907,000 in fiscal 2026, as shown in Exhibit 1.

Additional Information

Prior Introductions: SB 972 of 2018 passed the Senate and received a hearing in the House Ways and Means Committee, but no further action was taken. Its cross file, HB 463, received a hearing in the House Ways and Means Committee, but no further action was taken. HB 230 of 2017 received a hearing in the House Ways and Means Committee, but no further action was taken.

Designated Cross File: None.

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

Fiscal Note History: First Reader - March 9, 2021
rh/hlb Third Reader - March 29, 2021
Revised - Amendment(s) - March 29, 2021

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