HB 1266

Department of Legislative Services

2010 Session

FISCAL AND POLICY NOTE

House Bill 1266 (Delegate Barkley, *et al.*)
Ways and Means

Income Tax - Homebuyer Tax Credit

This bill creates an income tax credit for a taxpayer who purchases a home between July 1, 2010 and December 31, 2011 and who has not purchased or owned a home within specified time periods. The credit is equal to 1% of the home purchase price, subject to a maximum of $3,000 or $5,000 for a "first-time" homebuyer. The credit may only be claimed if (1) the purchase price of the home is $800,000 or less; (2) the income of the taxpayer is not greater than $225,000 ($125,000 for single filers); and (3) other specified requirements are met.

The bill takes effect July 1, 2010, and applies to tax year 2010 and beyond.

Fiscal Summary

State Effect: General fund revenues decrease by $82.0 million in FY 2011 and by $168.0 million in FY 2012 due to credits claimed against the personal income tax. Future years reflect estimated revenue gains from recaptured credits as provided by the bill. General fund expenditures increase by $37,400 in FY 2011 due to one-time tax form and computer programming expenses at the Comptroller's Office.

($ in millions)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
GF Revenue	($82.0)	($168.0)	$13.0	$13.0	$9.0
GF Expenditure	$.0	$0	$0	$0	$0
Net Effect	($82.0)	($168.0)	$13.0	$13.0	$9.0

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: This bill creates an income tax credit for taxpayers who have not purchased or owned a home within specified time periods and purchase a home between July 1, 2010 and December 31, 2011. The credit is equal to 1% of the home purchase price, not to exceed the tax liability in the year and any unused amount may not be carried to any other tax year.

In order to qualify, a taxpayer may not have owned a home during the last three years or have not purchased a home within the last five years. For taxpayers who have not owned a home during the last three years, the credit may not exceed $5,000. For taxpayers who have not purchased a home within the last five years the limit is $3,000. A taxpayer who has not purchased a home in the last five years may only claim the credit if the homebuyer has owned and lived in a previous home for five consecutive years during the last eight years.

The credit is recaptured if within three years after the home purchase the home is sold or is no longer the buyer's principal residence. The credit may not be claimed if (1) the individual is under the age 18 or is claimed as a dependent by another taxpayer; (2) the home purchase price is over $800,000; or (3) the taxpayer's modified federal adjusted gross income exceeds $225,000 ($125,000 for individuals).

Current Law: No similar tax credit exists, although individuals may generally itemize the cost of mortgage interest payments for federal tax purposes. In addition to reducing federal income tax liability, this deduction flows through for State income tax purposes and typically reduces State and local income taxes paid.

Individuals may qualify for a federal homebuyer tax credit and State incentives as described below.

Background: The federal Worker, Homeownership, and Business Assistance Act of 2009 extends an income tax credit for qualified homebuyers originally enacted by the Housing and Economic Recovery Act of 2008 and previously extended by the American Recovery and Reinvestment Act of 2009. The extended credit is equal to up to $8,000 for qualified first-time homebuyers purchasing a principal residence and up to $6,500 for qualified repeat homebuyers. The credit is available for the purchase of a home by April 30, 2010. The eligibility standards of the federal credit mirror those proposed by the bill.

The Department of Housing and Community Development offers several programs providing homebuyers with mortgage and down payment assistance including (1) the Maryland Mortgage Loan Program; (2) the New Issue Bond Program; (3) Down Payment and Settlement Expense Loan Program; (4) Builders and Developers Incentive Program; and (5) Community Partners Incentive Program.

State Revenues: Tax credits can be claimed beginning in tax year 2010. As a result, general fund revenues will decrease by about $82.0 million in fiscal 2011 and by $168.0 million in fiscal 2012. General fund revenues increase by $13.0 million in each of fiscal 2013 and 2014 and by $9.0 million in fiscal 2015.

This estimate is based on the federal Joint Committee on Taxation estimated cost of the federal homebuyer tax credit as extended by the Worker, Homeownership, and Business Assistance Act of 2009; adjusted for Maryland and differences in the duration of the time period in which the federal Act and HB 1266 apply.

State Expenditures: The Comptroller's Office reports that it would incur a one-time expenditure increase of $37,400 in fiscal 2011 to add the credit to the personal income tax form. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Joint Committee on Taxation, Department of Housing and Community Development, State Department of Assessments and Taxation, Comptroller's Office, Department of Legislative Services

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