House Bill 1178 – Income Tax – Subtraction Modification – First-Time Homebuyer Savings Accounts

Position: Support

The Maryland REALTORS® supports HB 1178 which creates a tax preferred savings account for first-time Maryland homebuyers. First-time buyers are important catalysts for the real estate market, creating move-up buyers and adding supply to our constrained housing inventory.

The National Association of REALTORS® (NAR) annual survey of homebuyers and sellers noted that first-time buyer levels are a smaller share of the market than at any time in the last 30 years. The percentage of first-time buyers has fallen from the typical average of 40% to just 31% in 2020. What's more, 52% of adult children are living at home with a parent – the highest percentage in the last 100 years.

This drop in first-time buyers is not because young people have different priorities than previous generations. It is that today's young purchasers have significant difficulties in saving necessary funds due to rising rents and student loan debt, as well as facing tougher loan underwriting standards. With 79% of first-time homebuyers relying on savings to purchase their first home, it becomes apparent why homeownership rates are on the decline.

HB 1178 gives first-time buyers a tax incentive to establish their own homebuyer savings account. However, as amended, it no longer includes an incentive for relatives to save for an identified homebuyer like a child or grandchild. As introduced, the legislation would have allowed individuals to create an account for an identified beneficiary, such as a parent for a child. That provision, obviously, would extend the reach of the program.

Down payment and closing costs are the biggest hurdle facing most first-time homebuyers. Helping buyers overcome these barriers are often the best and most efficient way to help new buyers enter the market and start to build wealth through home equity.

The Maryland REALTORS® strongly supports the savings mechanisms that HB 1178 establishes.

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Comparison to Other Investment Accounts

	May be used for home purchase, and truly tax free?	Beneficiary or 3rd Party?	Withdrawal Limit w/out Penalty?	Additional Restrictions
Proposed Maryland HSA	Yes and Yes.	***First- time homebuyer only under House Amendments. Remove: Individual who is designated as a qualified beneficiary.***	$50,000	Must be used within 15 years of opening account.
Traditional IRA	Yes and Yes	Yes, spouse, children, grandchild or parent	$10,000	1st time homebuyer – no principal home within last two years
Roth IRA	Yes and maybe. Earnings and converted accounts are tax-free, personal contributions are not tax free when deposited just when withdrawn	Yes, spouse, children, grandchild or parent	$10,000	Must have ROTH account for at least 5 years before withdrawing earnings. Can withdraw taxed contributions anytime
Self-Directed IRA	Yes and Yes.	Not for personal use.		N/A
401K	Maybe and yes.	Many 401Ks will allow withdrawals through loans or hardship exemption but depends on the employer plan. Yes, spouse, children, grandchild or parent	50% or $50,000	