



**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 and move-up buyers.

The National Association of REALTORS® (NAR) conducts an annual survey of homebuyers and sellers and noted that first-time buyers over the last few years are at a historically smaller share of the market than at any time in the last 30 years. The percentage of first-time buyers fell from an average of 40% to 33 % nationally in 2015 and has remained stuck in the low thirties since, dropping to 31% in 2020. 52% of adult children are living at home with a parent – the highest percentage in the last 100 years.

Moreover, the drop in first-time buyers is not because young people have different priorities than previous generations. In fact, studies show that young people still view homeownership as an important personal goal. Unfortunately, young purchasers have significant barriers, including: higher rents than previous generations which make saving for downpayments more difficult; student loans which postpone savings for downpayments; and for many tougher loan underwriting.

The 2020 NAR survey of Homebuyers and sellers showed that 79% of first-time homebuyers rely on savings to purchase their first home compared to 58% for all other buyers who often use sales proceeds from another transaction. HB 1178 targets this primary source of funds by giving individuals a tax incentive to establish their own homebuyer savings account as well as an incentive for relatives to save for an identified homebuyer like a child or grandchild.

HB 1178 allows individuals to contribute up to \$5,000 a year into a designated account and deduct that amount from their state taxes. Up to \$50,000 may be contributed or earned tax free if that money is used to pay downpayment or closing costs within 15 years of establishing an account.

Downpayment and closing costs the biggest hurdle facing most first-time homebuyers. Every 1 percent increase in closing costs and downpayments lowers the affordability of housing by 10 percent. Helping buyers overcome these barriers are the 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 support HB 1178.

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## Comparison to Other Investment Accounts

	May be used for home purchase, and truly tax free?	Beneficiary or 3 <sup>rd</sup> Party?	Withdrawal Limit w/out Penalty?	Additional Restrictions
<b>Proposed Maryland HSA</b>	Yes and Yes.	Individual who is designated as a qualified beneficiary.	\$50,000	Must be used within 15 years of opening account.
<b>Traditional IRA</b>	Yes and Yes	Yes, spouse, children, grandchild or parent	\$10,000	1 <sup>st</sup> time homebuyer – no principal home within last two years
<b>Roth IRA</b>	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
<b>Self-Directed IRA</b>	Yes and Yes.	Not for personal use.		N/A
<b>401K</b>	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	

