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Fiscal Note

Fiscal Services Division

SF 505 – Homebuyer Savings Accounts (LSB2280SZ)
Analyst: Jeff Robinson (Phone: (515)281-4614) (jeff.robinson@legis.iowa.gov)
Fiscal Note Version – New

Description

Senate File 505 creates a new State individual income tax deduction for qualified deposits to a First-time Homebuyer Savings Account. While there is no limit to the amount a taxpayer may contribute to an account, deposits qualifying for the income tax deduction are limited to $2,000 per year for an individual account or $4,000 per year for a married couple with a joint account. Interest earned on account balances is also exempt from State income tax. The $2,000/$4,000 limits are adjusted annually for inflation.

An Iowa resident qualifies as a first-time homebuyer if the resident has not owned, either individually or jointly, a single or multifamily residence for the previous three years.

A First-time Homebuyer Savings Account may be established by anyone and each established account must specify a Designated Beneficiary. A Designated Beneficiary is the person who will utilize the funds within the account to purchase a home. The person who establishes the account and the Designated Beneficiary do not need to be the same person. A Designated Beneficiary must qualify as a first-time homebuyer at the time the account is established and at the time the funds within the account are used for a home purchase.

A qualifying First-time Homebuyer Savings Account must be an interest-bearing savings account and established with a State or federally chartered bank, savings and loan association, credit union, or trust company in Iowa. The money within an account is available for up to 10 years to be used for the qualifying purchase costs of a single-family residence. If the money in an account is withdrawn for a nonqualified reason or if the money is not used to purchase a home within 10 years, the money not used for a qualifying purchase, plus 10.0%, is added to the account holder's taxable income for State income tax purposes. The 10.0% penalty does not apply if the withdrawal is due to the death of the account holder or due to a garnishment, levy, or order.

This Bill is effective January 1, 2018, and applies to tax year 2018 and after.

Assumptions

- An estimated 40,000 single-family, owner-occupied homes are sold in Iowa each year.
- An estimated 37.0% of single-family, owner-occupied homes are sold to first-time homebuyers as the Bill defines that term (14,800 homes).
- The annual number of accounts established to purchase first-time homes will fall into these general categories:
  - 1,600 one-year accounts (the year of purchase) with an average deposit of $3,000 per account.
  - 1,200 two-year accounts with an average total deposit of $6,000.
  - 800 three-year accounts with an average total deposit of $9,000.
  - 400 four-year accounts with an average total deposit of $12,000.
  - 200 10-year accounts with an average total deposit of $30,000.

    - 10,600 first-time home purchases will be made without an account.
- The interest rate on accounts will average 2.4% over the next 10 years.
- The average marginal income tax rate for benefited taxpayers will be 7.0%.
- Due to the work and publicity needed to get the new process fully operational, the fiscal impact in the first three years is assumed to be limited to a percentage of the projected full impact:
    - Calendar year 2018 (impacting FY 2019) = 25.0%
    - Calendar year 2019 (FY 2020) = 50.0%
    - Calendar year 2020 (FY 2021) = 75.0%
    - Calendar year 2021 and after = 100.0%
- The average statewide rate for the local option income surtax for schools is 3.2%.

Fiscal Impact

The tax credit created in this Bill is projected to reduce net General Fund revenue by the following amounts:

First-time Homebuyer Tax Credit
In Millions

	General Fund Revenue Reduction
FY 2019	$ -0.2
FY 2020	-0.7
FY 2021	-1.3
FY 2022	-1.9
FY 2023	-2.0
FY 2024	-2.0

For fiscal years beyond FY 2024, the fiscal impact is expected to increase modestly. The new tax credit will reduce State tax liability and it will also reduce the revenue raised by the local option income surtax for schools, for school jurisdictions with the surtax in place. This Bill is projected to reduce the statewide surtax yield by $50,000 to $100,000 annually.

Sources

Legislative Services Agency analysis
Iowa Association of Realtors
Iowa Department of Revenue

/s/ Holly M. Lyons

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The fiscal note for this Bill was prepared pursuant to Joint Rule 17 and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.