



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2021 Biennium

Bill # HB0709

Title: Generally revise first-time homebuyer savings account

Primary Sponsor: Hamilton, Jim

Status: As Introduced

- Significant Local Gov Impact
 Needs to be included in HB 2
 Technical Concerns
 Included in the Executive Budget
 Significant Long-Term Impacts
 Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2020</u> <u>Difference</u>	<u>FY 2021</u> <u>Difference</u>	<u>FY 2022</u> <u>Difference</u>	<u>FY 2023</u> <u>Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	(\$15,500)	(\$31,000)	(\$31,000)	(\$33,000)
Net Impact-General Fund Balance:	<u>(\$15,500)</u>	<u>(\$31,000)</u>	<u>(\$31,000)</u>	<u>(\$33,000)</u>

Description of fiscal impact: HB 709 expands the first-time homebuyer savings account income tax exclusion program by broadening the parameters by which people are qualified to make tax advantaged contributions to the accounts and raises the maximum exemption amounts and adjusts them for inflation. The uses of account funds is also expanded by the bill.

FISCAL ANALYSIS


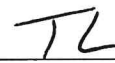
Assumptions:

Department of Revenue

1. The State of Montana currently allows individuals to exempt income from state incomes taxes if the income is deposited into a first-time home buyer savings account. To qualify for a tax-exempt savings account, a taxpayer must not have previously owned a home or other dwelling with a permanent foundation at any previous time, or in any other state. Taxpayers who file a single, head of household, or married filing separately return may exclude annually up to \$3,000 in income, taxpayers filing a joint return, the income exemption is increased to \$6,000. The income exemption under current law is only available to owners of the first-time homebuyers savings account.
2. If the money in the savings account is spent within 10 years of opening the account and is spent on the down payment and allowable closing costs of purchasing a single-family residence, the income that was deposited into the savings account remains untaxed. Otherwise, the income is taxed as ordinary income and is subject to a 10 percent penalty.

3. HB 709 makes several significant changes to the first-time homebuyer savings account program. First, individuals who do not own the savings account, but make a deposit on behalf of an account holder will be able to exempt the income from their adjusted gross income. Second, the types of spending from the savings account is expanded to allow spending on mortgage insurance, escrow and the cost of bringing the home being purchased up to basic occupancy standards, which includes the cost of appliances. Third, the maximum contribution limits are increased. The contribution maximum for joint filers is increased to \$7,000 in TY 2019, \$8,000 in TY 2020, and is increased each tax year after based on an inflation factor. For single, head of household and married filing separately, the maximum contribution amount is increased to \$3,500 in TY 2019, \$4,000 in TY 2020 and increases every year afterwards based on the same inflation factor as the joint returns. Any attempt to claim more than the maximum amount is subject to penalties.
4. The changes made by HB 709 apply starting July 1, 2019.
5. The estimates in this fiscal note assume that the number of accounts will remain unchanged. However, it is likely that the proposed changes will increase the number of first-time homebuyer savings accounts.
6. In TY 2017, 255 returns reported income being deposited into a first-time homebuyers savings account and being exempt from Montana's income tax. The 255 returns reported \$691,899 in tax exempt income.
7. Of the 255 returns reporting first-time homebuyers exempt income, 170 reported the maximum exemption amount of either \$3,000 or \$6,000.
8. The use of these accounts is assumed to increase due the changes in the bill, the expansion is approximated by assuming that the equivalent of all TY 2017 (255) returns would meet the respective new maximum exemptions under HB 709.
9. The HJ 2 income tax model was modified to change the total income exempted by the 255 returns to the maximum amounts created by HB 709. The change in income tax liability under current law and the proposed law is used to estimate the tax liability impact of the proposed law.
10. Based on the income tax model, increases in the level of exemptions would decrease income tax liabilities by \$15,500 in TY 2019 and \$31,000 in TY 2020, \$31,000, TY 2021, \$33,000 in TY 2022.
11. As the tax liability change is relatively small for each taxpayer and is not directly tied to withholdings, or estimated payments, it is assumed that the change in tax liabilities each year will reduce income tax revenue the following fiscal year when taxpayers file their tax returns.
12. With no withholding or estimated payment changes, the proposed bill will reduce income tax revenue by \$15,500 in FY 2020 and \$31,000 in FY 2021, \$31,000 in FY 2022, and \$33,000 in FY 2023.
13. The department does not expect to incur any significant costs because of the proposed bill.

<u>Fiscal Impact:</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
Department of Revenue	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
FTE	0.00	0.00	0.00	0.00
<u>Expenditures:</u>				
Personal Services	\$0	\$0	\$0	\$0
Operating Expenses	\$0	\$0	\$0	\$0
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenues:</u>				
General Fund (01)	(\$15,500)	(\$31,000)	(\$31,000)	(\$33,000)
TOTAL Revenues	<u>(\$15,500)</u>	<u>(\$31,000)</u>	<u>(\$31,000)</u>	<u>(\$33,000)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$15,500)	(\$31,000)	(\$31,000)	(\$33,000)

 <hr/> <i>Sponsor's Initials</i>	<hr/> <i>Date</i>	 <hr/> <i>Budget Director's Initials</i>	<hr/> <i>3/27/19</i> <hr/> <i>Date</i>
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