Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bills 145 and 146 (as reported without amendment)
Sponsor: Senator Ken Horn (S.B. 145)
Senator Jim Runestad (S.B. 146)
Committee: Finance

CONTENT

Senate Bill 145 would create the "Michigan First-Time Home Buyer Savings Program Act" to do the following:

-- Require the Department of Treasury to establish the First-Time Home Buyer Savings Program.
-- Allow an individual, beginning January 1, 2022, to open an account with a financial institution and designate the account as a first-time home buyer savings account to be used to pay or reimburse a beneficiary's eligible costs for the purchase of a single-family residence in the State.
-- Specify that contributions to and interest earned on a first-time home buyer savings account, as well as qualified withdrawals made from the account, would be exempt from taxation under the Income Tax Act.
-- Limit the maximum account balance of a first-time home buyer savings account to $50,000, subject to an earnings exception.
-- Specify that, subject to certain exceptions, funds withdrawn from an account for any purpose other than the payment of eligible costs would be subject to a penalty equal to 10% of the amount withdrawn.
-- Specify what a financial institution would not be responsible or liable for, regarding first-time home buyer savings accounts.
-- Require the Department to prepare forms for certain account-related items to be filed with an income tax return filed under the Income Tax Act.
-- Allow the State Treasurer to promulgate rules to implement the Program.
-- Allow the Department to prepare and distribute informational materials on the Program to financial institutions and potential home buyers.

Senate Bill 146 would amend the Income Tax Act to allow a deduction, per tax year, of up to $5,000 for a single return and $10,000 for a joint return for contributions to a first-time home buyer savings account for up to 20 tax years; and to allow a deduction for qualified withdrawals from an account.

The bills are tie-barred.

MCL 206.30 (S.B. 146) Legislative Analyst: Christian Schmidt

FISCAL IMPACT

The bills would reduce revenue to both the State General Fund and the State School Aid Fund by approximately $1.9 million to $19.8 million per year beginning in fiscal year 2021-22, although the actual amount would depend on actual contributions and participation rates.

Approximately 23.8% of any revenue reduction would lower School Aid Fund revenue, with the remaining impact lowering General Fund revenue. The maximum potential revenue loss under the bills is much greater.

The most important variables in estimating the fiscal impact of the bills are the participation rate and the average annual contribution to the accounts. The bills would be more generous than similar proposals introduced or adopted in other states, suggesting that participation might be higher than estimated in other states. However, Michigan already has the fourth-highest homeownership rate in the United States, which could suggest that participation either would be either greater (because homeownership is a higher priority with the population) or lower (because people, comparatively, are purchasing or owning homes at a higher rate already, suggesting that less assistance, like that proposed by the bills, is needed) than in programs in other states. Similarly, Michigan's marginal tax rate is approximately half to two-thirds of the tax rate in other states with similar proposals, meaning that the bills would provide relatively less tax relief than provided by the provisions in other states. The provisions would be on top of any Federal incentives for first-time homebuyers.

Data from the Michigan Association of Realtors indicate that over the 2018-2020 period an average of 114,766 homes were sold each year. National figures indicate that first-time buyers represent 38% of purchasers. If contributions deductible under the bills averaged $5,500, and 8,000 individuals claimed the deduction, the bills would reduce revenue by $1.9 million per year. In 2020, the average sale price totaled approximately $214,000. If 50% of the estimated number of first-time homebuyers saved an average of five years to accumulate enough money in the account to make a 10% down payment on a mortgage for an average-priced home, the bills would reduce revenue by approximately $19.8 million per year by 2026; illustrating the degree to which the fiscal impact of the bills could vary based on participation rates and average contributions.

The bills would result in additional administrative costs to the Department of Treasury. The Department could incur additional administrative expenses from administering the program, processing additional information on income tax returns, and marketing the program. These expenses could be minimal and within current appropriations, though a more accurate estimate is not currently available.

Date Completed: 4-13-21 Fiscal Analyst: David Zin