HOUSE COMMITTEE ON APPROPRIATIONS

FISCAL NOTE

HOUSE BILL NO. 128 **PRINTERS NO**. 563 **PRIME SPONSOR**: Brown

COST / (SAVINGS)

FUND	FY 2018/19	FY 2019/20
General Fund	See Fiscal Impact	See Fiscal Impact

SUMMARY: House Bill 128, Printer's Number 563, creates a free-standing act to be known as the Pennsylvania First-Time Home Buyer Savings Account Act providing for the establishment of tax-deductible savings accounts for first-time home buyers in the Commonwealth.

ANALYSIS: This legislation provides that beginning six months after the effective date, an individual may open a first-time home buyer savings account (account) with a financial institution. The account holder shall designate no more than one qualified beneficiary, which may be himself/herself, and may change the designated qualified beneficiary at any time. An individual may be designated as the qualified beneficiary on more than one account. An account holder may jointly own an account if the joint owners file a joint personal income tax return in PA. Funds in the account may only be used to pay or reimburse eligible costs for the purchase of a single-family residence in this Commonwealth.

A first-time homebuyer is an individual who resides in this Commonwealth and has not owned or purchased a single-family residence during the three-year period prior to the purchase date. "Single-family residence" is defined as a single-family residence owned and occupied by a qualified beneficiary as the principal residence, which may include a manufactured home, trailer, mobile home or a unit in a condominium, cooperative or planned community.

The maximum amount of contributions to an account is $150,000. Account holder contributions are tax deductible in the year the contribution was made but may not exceed $5,000 for an account holder filing an individual tax return and $10,000 for joint account holders filing a joint tax return. Individuals other than the account holder may make contributions to the account but such individual is not entitled to the deduction and exclusion under the act. The amount of earnings on an account during the taxable year may be excluded from taxable income of the account holder for a period of no more than 10 years and for an aggregate amount of principal and earnings not to exceed $50,000 within 10 years. An account holder may withdraw funds from an account and deposit the funds in a new account held by the same or a different financial institution. Funds not expended on eligible costs before the 10-year period shall be included in the account holder's taxable income.

When filing annual tax returns, the account holder is responsible for providing a list of account transactions within the tax year, the Form 1099 issued by the financial institution and any other information required by the department. Upon withdrawal of funds, the account holder is responsible for submitting information to the department detailing the eligible costs toward which the funds were applied and the amount of funds remaining in the account.

The financial institution may not be required or held liable to do any of the following: (1) designate an account as a first-time home buyer account or designate a qualified beneficiary in its contracts or systems; (2) track the use of money withdrawn; (3) allocate funds among joint holders or multiple beneficiaries; (4) report any information to the department or other governmental agency; (5) determine if the account satisfies the requirements of the act; (6) ensure that funds are used for eligible costs; or (7) report or remit taxes or penalties related to the use of the account.

If funds are withdrawn for purposes other than permitted by the act or if after the withdrawal of funds an ineligible use of the property occurs, the entire amount withdrawn shall be included in the account holder's taxable income as interest income and the account holder shall pay a penalty equal to 10% of the amount withdrawn, except if the withdrawal is by reason of the account holder's or beneficiary's death or disability or a disbursement of assets pursuant to a filing for protection under the Bankruptcy Code.

The department shall prepare forms as needed and promulgate rules and regulations necessary to administer and enforce the provisions of the act. The act shall take effect in 60 days.

FISCAL IMPACT: The fiscal impact of this legislation is dependent on many factors including participation rates, the total amount of account contributions and total account earnings. Therefore, an exact fiscal impact of this legislation is unknown.

Information provided by the Department of Revenue using historical data from the current 529 College Savings Program results in an estimated decrease in personal income tax revenue of $6.7 million annually. This estimate assumes a 7.7% participation rate (approximately 4,350) for all first-time home buyers in the Commonwealth. Any new tax revenue generated from the economic impact on the housing and construction markets would offset the lost revenues from the personal income tax deductions and exclusions. The department has indicated the need for additional field auditors and desk examiners for enforcing the provisions of the act. It is assumed that any additional costs can be accommodated within existing resources.

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House Appropriations Committee (R)

DATE: February 21, 2019

Estimates are calculated using the best information available. Actual costs and revenue impact incurred may vary from estimates.