SENATE APPROPRIATIONS COMMITTEE FISCAL NOTE

BILL NO. Senate Bill 157

PRINTER NO. 139

AMOUNT

See Fiscal Impact

FUND

General Fund

DATE INTRODUCED

February 2, 2021

PRIME SPONSOR

Senator Mensch

DESCRIPTION

Senate Bill 157 establishes the Pennsylvania First-Time Home Buyer Savings Account Act.

The legislation provides that an individual may open a first-time home buyer savings account (account) with a financial institution authorized to do business in this Commonwealth. Subject to specified conditions contained in the bill, the amount contributed by an account holder to a first-time home buyer savings account during each tax year shall be deductible from the taxable income of the account holder under Article III of the Tax Reform Code of 1971 (personal income tax).

Senate Bill 157 defines terms necessary to implement and administer the program. A "first-time home buyer" is defined as an individual who resides in this Commonwealth and has not owned or purchased directly or through a trust, limited liability company, partnership or other legal entity, either individually or jointly, a single-family residence during the three-year period prior to the purchase date of a single-family residence. The legislation defines a "single-family residence" as a single-family residence owned and occupied by a "qualified beneficiary" as the qualified beneficiary's principal residence, which may include a manufactured home, trailer, mobile home or a unit in a condominium, cooperative or planned community.

A first-time home buyer account holder may designate no more than one first-time home buyer as the qualified beneficiary of an account, and an account holder may designate himself/herself as the qualified beneficiary and may change the qualified beneficiary at any time. An individual may be designated as the qualified beneficiary on more than one first-time home buyer savings account. Joint accounts are permitted if the joint account holders file a joint Pennsylvania personal income tax return.

Funds from a first-time home buyer savings account may be used only to pay or reimburse a qualified beneficiary's eligible costs for the purchase of a single-family residence in this Commonwealth. "Eligible costs" are defined as the down payment and allowable closing costs for the purchase of a single-family residence in this Commonwealth by a qualified beneficiary but shall not include costs incurred prior to the establishment of a first-time home buyer savings account.

The amount contributed by an account holder to a first-time home buyer savings account during each tax year may not exceed $5,000 for an account holder who files an individual personal income tax return or $10,000 for joint account holders who file a joint personal income tax return. Contributions to an account are deductible from the taxable income of the account holder for purposes of computing the Pennsylvania personal income tax liability during the tax year the contributions were made. In addition, the earnings on an account also may be excluded from the account holder's taxable income.

Deductions and exclusions from taxable income are limited as follows:

1. To a period of no more than ten years;
2. For an aggregate amount of principal and earnings not to exceed $50,000 within ten years; and
3. Only if the principal and earnings of an account remain in the account until a withdrawal is made for eligible costs, unless the funds are withdrawn and transferred into a new first-time home buyer account.

Individuals other than an account holder may deposit funds into an account, but such individuals are not entitled to tax deductions or exclusions.

Senate Bill 157 stipulates that funds in a first-time home buyer account not expended on eligible costs before expiration of the ten-year limitation period shall be included in the account holder's Pennsylvania taxable income.

Upon withdrawal of funds from an account, Senate Bill 157 requires an account holder to submit to the Department of Revenue (department) a detailed accounting of the eligible costs toward which the funds were applied and a statement of the amount of funds remaining in the account. When filing a personal income tax return, an account holder must provide to the department a list of transactions for the account during the tax year and the federal form 1099 issued by the financial institution holding the account. Financial institutions are not required to designate an account or qualified beneficiary, track the use of withdrawals, allocate funds among joint account holders or multiple beneficiaries, report any information to the department, determine whether an account satisfies the program's requirements, ensure that funds in the account are used for eligible costs, nor report or remit taxes or penalties related to an account.

If an account holder withdraws any amount of money from a first-time home buyer savings account for a purpose other than eligible costs, the amount shall be included in the account holder's Pennsylvania taxable income, and the account holder must pay a penalty equal to 10% of the amount withdrawn, except that the penalty shall not apply to funds withdrawn by reason of the account holder's death or disability or through a disbursement of assets of the account pursuant to filing for protection under the federal Bankruptcy Code.

SENATE APPROPRIATIONS COMMITTEE FISCAL NOTE

Senate Bill 157 requires the Department of Revenue to prepare specified forms needed to implement and administer the program. The legislation gives the department the authority to promulgate rules and regulations necessary to administer and enforce this act.

This act shall take effect in 60 days. The legislation provides that an individual may open a first-time home buyer savings account six months after the effective date of the act.

FISCAL IMPACT:

Senate Bill 157 allows first-time home buyers, and other individuals on their behalf, to save money for the purchase of a first home. Subject to certain uses and limitations, money deposited into a first-time home buyer savings account and earnings thereon are free from state taxation under the Pennsylvania personal income tax. The fiscal impact of the legislation is dependent upon factors such as program participation rates, the amounts of money contributed by those who choose to participate, and investment earnings assumptions.

The Pennsylvania Department of Revenue prepared an analysis using statistics such as total Pennsylvania home sales and the percent of sales to first-time home buyers to arrive at cost estimates. The department's cost estimates range from $79 million annually based upon a maximum contribution of $50,000 for every first-time home buyer (i.e., 100% participation rate at maximum program savings limits) to $16 million annually under a scenario that assumes 50% of eligible buyers participate in the program and save enough for a 10% down payment on a home with a current median sale price.

Historical data from Pennsylvania's 529 College Savings Program shows that for a similar program offering tax deductions and exclusions, program participants contributed $652 million in FY 2019-20. According to the National Center for Education Statistics, Pennsylvania colleges and universities received revenue from tuition and services (e.g., room and board, food services, etc.) totaling $5.66 billion in FY 2018-19. Therefore, based upon the ratio of 529 college savings plan contributions to expenses for tuition and room and board, Pennsylvania residents saved for only 11.5% of allowable costs for which they could have received a personal income tax deduction. Consequently, based upon the 529 College Savings Program experience, it is reasonable to assume that first-time home buyer savings program utilization will be much lower than 100% of the maximum in terms of both participation rates and contribution limits.

A cost analysis for the first-time home buyer savings program utilizing a participation rate and methodology similar to the 529 College Savings Program experience results in a decrease of personal income tax revenues estimated at $9 million annually. However, because maximum annual contributions are limited to $5,000 per tax year for an individual and $10,000 per tax year for joint account holders, the $9 million annual cost would not fully ramp up for at least five years.

SENATE APPROPRIATIONS COMMITTEE FISCAL NOTE

The department anticipates the need to hire seven additional employees to implement and administer the program, with a personnel cost of approximately $600,000 annually. The department also will incur one-time start-up costs of $65,000.