REVENUE IMPACT OF PROPOSED LEGISLATION

79th Oregon Legislative Assembly
2018 Regular Session
Legislative Revenue Office

Bill Number:	**HB 4007 - C**
Revenue Area:	**Income Taxes**
Economist:	**Kyle Easton**
Date:	**3/2/2018**

Only Impacts on Original or Engrossed Versions are Considered Official

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Measure Description:

Allows individual to create a first-time home buyer savings account within a financial institution to pay or reimburse eligible costs to purchase a single-family residence. Allows subtraction from federal taxable income, amount equal to funds contributed to an account holder's first-time home buyer savings account. Limits subtraction amount during a tax year to $5,000 for single and $10,000 for joint filers with limitation phasing out as federal adjusted gross income increases. Exempts interest and other income earnings of account from taxation. Limits subtraction and exemption for period not to exceed 10 years and limits aggregate total amount of principal and earnings to not exceed $50,000. Establishes limitations on qualified withdrawals from account. Assesses penalty equal to five percent of amount of funds withdrawn from a taxpayer's account if funds withdrawn are not used for eligible costs. Applies to tax years beginning on or after January 1, 2019 and before January 1, 2037.

Revenue Impact (in $Millions):

	Biennium		
	2017-19	2019-21	2021-23
General Fund	$0	-$4.1	-$6.0

Impact Explanation:

Impact estimate reflects potential reduction in Oregon tax liability resulting from first-time homebuyer's creating first-time homebuyer savings account, subtracting deposits into such accounts and excluding earnings on the account from taxable income. To qualify for a subtraction from Oregon taxable income, a potential first-time homebuyer is required to designate and establish a first-time home buyer savings account with a financial institution. A subtraction is allowed in an amount equal to the funds contributed to the account (subject to specified limits) whereas earnings on the principal in the account are exempt from taxation. For example, a joint filer could subtract up to $10,000 per tax year, which translates into potential reduction in Oregon tax liability of $900 per tax year (excluding potential earnings on principal), up to the $50,000 aggregate tax benefit limit on the account.

As there is no requirement on the amount of time funds must stay in an account, a taxpayer may contribute to an account and shortly thereafter, withdraw the funds for use in a qualifying home purchase. This dynamic allows a potential tax benefit to nearly all first-time homebuyers depending upon the homebuyer's adjusted gross income and existing Oregon tax liability. For this reason, the potential impact on revenue will depend upon the number of first-time homebuyers that fulfill the administrative requirements of establishing an account. This

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in turn will depend heavily upon knowledge of the program, outreach from the realtor community and participation by financial institutions.

The revenue impact estimates were made assuming that 10-15% of first-time home buyers will utilize the program for at least one single tax year. This participation percentage is based upon participation in Montana's first-time homebuyer savings account program. In recent years, first-time homebuyers have accounted for about 20,000 home purchases annually.

Creates, Extends, or Expands Tax Expenditure: Yes ☒ No ☐

The policy purpose of this measure is to provide an opportunity for Oregon residents to save funds for first-time home ownership and to provide Oregonians with a meaningful incentive to save for the purchase of a first home.

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