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BILL ANALYSIS

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House Bill 4290 (Substitute S-3 as reported by the Committee of the Whole)
Sponsor: Representative Mari Manoogian
House Committee: Tax Policy
Senate Committee: Finance

CONTENT

The bill would amend the Income Tax Act to allow, for tax years beginning on and after January 1, 2020, through the 2026 tax year, a deduction 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. The bill also would allow a deduction for interest earned on those contributions and for distributions that were qualified withdrawals from the account.

The bill is tie-barred to Senate Bill 145. (Senate Bill 145 would enact the "Michigan First-Time Home Buyer Savings Program Act".)

MCL 206.30 Legislative Analyst: Jeff Mann

FISCAL IMPACT

The bill 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 between fiscal year (FY) 2021-22 and FY 2026-27, 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 bill could be much greater.

The most important variables in estimating the bill's fiscal impact are the participation rate and the average annual contribution to the accounts. The bill would be more generous than similar proposals introduced or adopted in other states, suggesting that participation could 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 bill, 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 bill would provide relatively less tax relief than provided by the provisions in other states. A taxpayer claiming the maximum deduction under the bill would see his or her taxes lowered by $425, or 0.2% of the average home price in Michigan during 2020. The provisions would be on top of any Federal incentives for first-time homebuyers.

The temporary nature of the deduction, which would be available only through tax years 2022 to 2026, also could reduce participation, especially for taxpayers that would require a longer period of time to save for a down payment. The short window for the deduction suggests that the majority of participants likely would be individuals who could afford, absent the bill, to make meaningful progress on saving for a down payment over a short period of time. Even if longer-term savers participated, the sunset on the deduction would reduce the tax incentive to participate in the program. For example, if a taxpayer intended to save for 10 years toward a $20,000 down payment (roughly 10% of the average 2020 sale price) at $2,000 per year, the sunset would halve the tax incentive from the program.

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 bill averaged $5,500, and 8,000 individuals claimed the deduction, the bill 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 bill would reduce revenue by approximately $19.8 million per year by 2026; illustrating the degree to which the bill's fiscal impact could vary based on participation rates and average contributions.

Date Completed: 1-18-22 Fiscal Analyst: David Zin