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**HF 2452** – Home Buyer Savings Account, Tax Exemption (LSB 5761HZ 1)  
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Fiscal Note Version – As amended and passed by the House

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### **Description**

**House File 2452** creates a new State income tax exemption for qualified deposits to a First-time Homebuyer Savings Account. While there is no limit to the amount a taxpayer may contribute to an account, deposited amounts qualifying for the income tax exemption are limited to \$3,000 per year for an individual account or \$6,000 per year for a married couple with a joint account. Interest earned on account balances is also exempt from State income tax.

A qualifying account must pay interest and be established with a State or federally chartered bank, savings and loan association, credit union, or trust company in Iowa. The account must have an administrator. An account holder may also serve as the account administrator. To be eligible to establish an account, a taxpayer must never have been the owner of a single-family, owner-occupied residence.

The assets of an account are to be used for the down payment and allowable closing costs associated with the purchase of a home. Withdrawals from the account are tax-free as long as the money is used for a down payment and closing costs for a single-family, owner-occupied home in Iowa. If the account holder withdraws the money from the account for any other reason, they must include that money as taxable income on their Iowa tax return in the year of withdrawal. Nonqualified withdrawals are generally subject to a 10.0% withdrawal penalty on any amount that represents interest and earnings on the account balance. This Bill is effective January 1, 2015, and applies to tax year 2015 and after.

**House File 2452** imposes a serious misdemeanor penalty for knowingly preparing or causing to be prepared a false claim, statement, or billing to justify the withdrawal of money from a First-time Homebuyer Savings Account. This may already be charged as some other criminal conduct under current law.

### **Background**

#### **Correctional Impact**

Expanded definitions and enhanced penalties generally increase criminal justice system costs. Refer to the Legislative Services Agency (LSA) memo addressed to the General Assembly, **Correctional Impact Memo**, dated January 30, 2014, for information related to criminal justice system costs. The State General Fund cost of a serious misdemeanor conviction ranges from \$210 to \$4,500. The minimum cost includes court time of a District Associate Judge or a District Court Judge, court reporter, court attendant, and Clerk of Court staff. The maximum cost includes court time plus costs for indigent defense, State prison, and parole.

## Minority Data Information

Refer to the memo to the General Assembly, [Minority Impact Memo](#), dated January 30, 2014, for information related to minorities in the criminal justice system.

## Assumptions

- An estimated 25,000 single-family, owner-occupied homes are sold in Iowa each year.
- An estimated 40.0% of single-family, owner-occupied homes are sold to first-time homebuyers (10,000 homes).
- The annual number of accounts established to purchase first-time homes will fall into these general categories.
  - 5,000 one-year accounts (the year of purchase) with an average deposit of \$5,000 per account.
  - 2,000 two-year accounts with an average annual deposit of \$4,500.
  - 700 three-year accounts with an average annual deposit of \$3,500.
  - 225 four-year accounts with an average annual deposit of \$3,500.
  - 2,000 first-time home purchases will be made without an account.
  - The interest rate on accounts will be average 3.4% over the next 10 years.
  - The average marginal income tax rate for benefited taxpayers will be 6.5%.
  - Due to the work and publicity needed to get the process fully operational, the fiscal impact in the first three years is assumed to be limited to a percentage of the projected full impact:
    - FY 2015 = 25.0%
    - FY 2016 = 50.0%
    - FY 2017 = 75.0%
    - FY 2018 and after = 100.0%
  - The average statewide rate for the local option income surtax for schools is 3.5%.

## Summary of Impacts

### Fiscal Impact

The tax credit created in this Bill is projected to reduce net General Fund revenue by the following amounts.

<b>First-time Homebuyer Tax Credit</b>	
In Millions	
	General Fund Revenue Reduction
FY 2015	\$ -0.1
FY 2016	-0.5
FY 2017	-1.7
FY 2018	-2.7
FY 2019	-3.6
FY 2020	-3.6

For fiscal years beyond FY 2020, the fiscal impact continues at a similar level. The new tax credit will reduce State tax liability and it will also reduce the revenue raised by the local option income surtax for schools, for school jurisdictions with the surtax in place. This Bill is projected to reduce the statewide surtax yield by \$100,000 annually.

**Correctional Impact**

This Bill provides a serious misdemeanor penalty for any person that knowingly prepares or causes to be prepared a false claim, statement, or billing to justify the withdrawal of money from a first-time homebuyer savings account. A serious misdemeanor is punishable by confinement for no more than one year and a fine of at least \$315 but not more than \$1,875.

The correctional impact cannot be estimated but is expected to be minimal.

**Minority Impact**

The minority impact cannot be estimated but is assumed to be minimal.

**Sources**

Federal First-time Homebuyer claims, 2008 and 2009  
Iowa Association of Realtors  
Iowa Department of Revenue  
Legislative Services Agency analysis

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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