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# OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research  
and Drafting

Legislative Budget  
Office

S.B. 24  
(1\_134\_0557-4)  
134<sup>th</sup> General Assembly

## Fiscal Note & Local Impact Statement

[Click here for S.B. 24's Bill Analysis](#)

**Version:** In Senate Ways & Means

**Primary Sponsors:** Sens. Gavarone and Peterson

**Local Impact Statement Procedure Required:** Yes

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### Highlights

- Authorizing a personal income tax deduction for contributions to and earnings on a first-time home buyer savings account would decrease state personal income tax revenue beginning with tax year (TY) 2022 returns filed in FY 2023.
- Deductions for contributions are limited to \$6,000 per year for joint filers and \$3,000 per year for other filers, with inflation adjustment after the first year. A global cap limits the cumulative deductions taken for contributions or account earnings to \$30,000 for joint filers and \$15,000 for other filers.
- Data limitations make it impossible to predict the number of taxpayers who would claim the deduction, but plausible illustrative figures yield GRF revenue losses of several million annually.
- The Department of Taxation will incur expenditures to implement the requirements of this legislation.
- The state income tax revenue loss would be shared by the state General Revenue Fund (GRF, 96.64%), the Local Government Fund (LGF, 1.66%), and the Public Library Fund (PLF, 1.70%). Funds deposited into the LGF and PLF are distributed to counties, municipalities, townships, and public libraries according to statutory formulas and decisions by county budget commissions.

### Detailed Analysis

S.B. 24 authorizes a personal income tax (PIT) deduction for amounts deposited in a first-time home buyer savings account during the taxable year. Taxpayers can also deduct any interest or other income subsequently earned on the principal balance of these deposited amounts.

## First-time home buyer savings account

An account holder must designate one first-time home buyer as the qualified beneficiary of the first-time home buyer savings account no later than April 15 of the year following the year in which the account is opened. An account holder may designate himself or herself as the qualified beneficiary and may subsequently change the designated qualified beneficiary no more than one time per taxable year. Account holders need not be the designated beneficiary, so an account holder may open multiple accounts for a variety of individuals (or couples, if married and filing a joint return); an account holder cannot designate the same qualified beneficiary for more than one account, however.

S.B. 24 does not require financial institutions to track these designations. They are not required to designate an account as a first-time home buyer savings account, or designate the qualified beneficiary of an account, in the financial institution's account contracts or systems or in any other way.<sup>1</sup>

## Limitations of deduction

Account holders may begin claiming this new PIT deduction in the first year they open a first-time home buyer savings account, and may continue to claim the deduction for a total of five consecutive taxable years. If money remains in the account after that duration, the taxpayer must add back this residual amount to their taxable income.<sup>2</sup> Similarly, the bill requires taxpayers to add back withdrawn amounts deducted in prior years, if withdrawals were used for purposes other than assisting a first-time home purchase. Should this event occur, the bill imposes a 10% penalty, which is in addition to all other regular taxes and penalties imposed on amounts added back by the taxpayer.

The total amount of deposits deducted by an account holder for a taxable year, regardless of how many first-time home buyer savings accounts the account holder owns, cannot exceed \$6,000 for spouses filing a joint income tax return, or \$3,000 for all other account holders. The total amount deducted for all taxable years, for amounts deposited into the accounts and for earnings from the accounts, is limited to \$30,000 for joint filers and \$15,000 for all other taxpayers.

State revenue losses will begin shortly after the effective date of the deduction, which is TY 2022. Taxpayers may begin making contributions and claiming deductions for these contributed amounts beginning with TY 2022 tax returns filed in the latter half of FY 2023.

## First-time home buyers

The bill defines a "first-time home buyer" as an individual who resides in this state and has not owned or purchased, either individually or jointly, a single-family residence using amounts from a first-time home buyer savings account.

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<sup>1</sup> Section 193.04. The bill further specifies that a financial institution is not responsible or liable for: (1) determining or ensuring that an account satisfies the requirements to be a first-time home buyer savings account, or (2) determining or ensuring that funds in a first-time home buyer savings account are used for eligible costs.

<sup>2</sup> Section 193.05(B)(3).

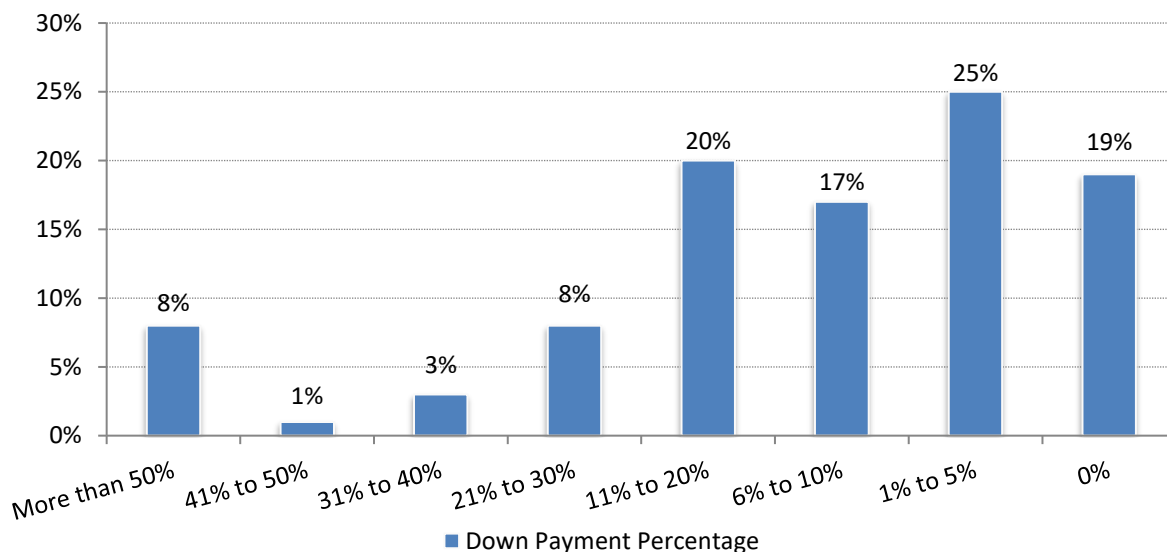
The savings account can be used for “eligible costs,” which the bill defines as the down payment and allowable closing costs for the purchase of a single-family residence in this state by a qualified beneficiary.

## Fiscal effect

Data limitations do not allow a precise estimate of the number of taxpayers likely to claim the deduction. Data are available on the number of first-time home buyers, though the definitions used for these data are different from those in the bill. Data on home purchases include the average income of purchasers, the average amount applied towards a down payment, and the number of years spent saving for a home purchase. These data are used below to construct plausible illustrations of revenue losses under the bill.

First-time buyers represented 35% of all homes purchased statewide in 2018, according to statistics from the Ohio Association of Realtors (OAR).<sup>3</sup> OAR estimated that first-time buyers typically financed 93% of their home purchase. National Association of Realtors (NAR) research identified three years as the median length of time buyers waited to buy a home while saving for the down payment.<sup>4</sup> The NAR research also reported that 96% of first-time buyers purchase with a mortgage, and the down payment amount can vary, as displayed in Chart 1 below. When examined alongside the average sale price of an Ohio home (\$185,000 in 2018), a majority of first-time home buyers are making down payments between 1% and 20% of their estimated purchase amount (i.e., typically less than \$37,000).

**Chart 1: Down Payments of First-Time Buyers that Obtained a Mortgage**



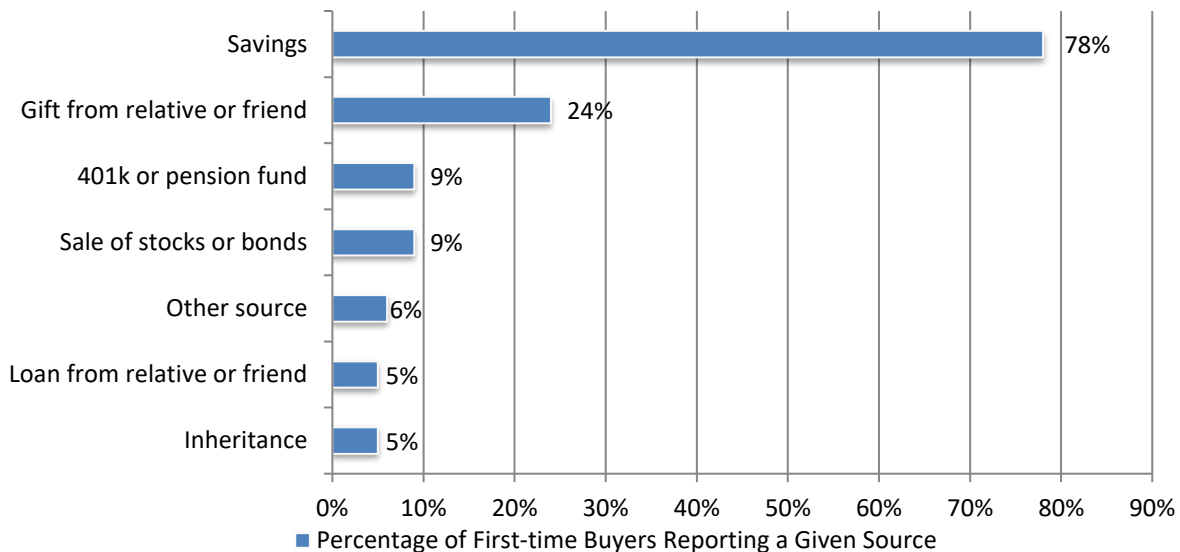
Source: NAR 2018 Profile of Home Buyers and Sellers

<sup>3</sup> Subsequent data for 2020 indicates that this percentage that year was closer to 32%, but this analysis uses experiences from a prior year unaffected by the coronavirus pandemic.

<sup>4</sup> NAR 2018 Profile of Home Buyers and Sellers.

As shown in Chart 2, the same NAR publication found that more than three-fourths of first-time buyers reported sourcing their down payment from personal savings accounts. The second most frequent source was a gift from a relative or friend, followed by the sale of stocks or bonds. Although multiple down payment sources could benefit from the tax deduction proposed in S.B. 24, the revenue estimate in this analysis will primarily focus on savings accounts utilized by purchasers and their family members because these are the most ubiquitous tendencies among first-time buyers.

**Chart 2: Sources of Down Payment Among First-Time Buyers**



Source: NAR 2018 Profile of Home Buyers or Sellers

Since first-time buyers represent about 35% of the 150,000 homes sold annually in Ohio, it can reasonably be expected that roughly 52,500 buyers (where 150,000 annual sales is multiplied by 35%) are saving for a purchase to be made within 12 months. Because other prospective homeowners are presumed to begin saving for homes purchased up to three years in advance, one possible scenario is that about 157,500 first-time home buyer savings accounts (where 52,500 annual first-time buyer sales is multiplied by three years) will be established by purchasers, and another 37,800 accounts (24% of the total, per Chart 2) would be established by relatives and friends of the first-time buyer. Based on these calculations, the maximum likely outcome would be 195,300 accounts receiving contributions in a given year.

However, experiences in other states suggest the utilization rate would be much lower. Giving due consideration to trends in those states, the number of Ohio accounts benefitting from S.B. 24 is assumed to be 19,530, or 10% of the estimated maximum. Certainly, some differences persist between this legislation and the environments in other states. Primarily, housing market characteristics and tax policy parameters prevent other states' outcomes from being uniformly comparable to Ohio.

A simplified approach using the information from the two NAR charts suggests that a majority of account holders would save less than \$135 per year on their state taxes. The annual deduction limit specified in the bill prevents any taxpayer's savings from exceeding much more

than \$292 per year. Under these parameters, the 19,530 taxpayers would reduce annual PIT receipts between \$2.6 million and \$3.2 million.

Generally, the response rate to these types of incentives is low during the first few years of implementation, but increases once their presence is widely disseminated to the public. With this factor in mind, the bill could reduce revenues by lower than anticipated amounts over the first few years (e.g., FY 2023-FY 2025). The scenarios outlined above imply that the revenue loss could be several million dollars annually. Given the data limitations involved in identifying taxpayers that might claim the deduction, LBO cannot exclude the possibility that this bill would reduce revenue by tens of millions per year. The likelihood of this occurrence depends on whether Ohio taxpayers utilize this proposed deduction much more substantially than those taxpayers observed in other states (see below).

The majority (96.64%) of any PIT revenue losses would be borne by the GRF. The remaining PIT revenue losses would be borne by two local government funds, the Local Government Fund (LGF) and Public Library Fund (PLF). The LGF and PLF each receive transfers equal to 1.66% of GRF tax receipts under codified law, but the PLF receives 1.70% of GRF tax revenue during the current biennium due to an uncodified provision of H.B. 110. Under the illustrative scenario shown above, the share of the foregone revenue to the two funds would be less than \$0.1 million per year.

The Department of Taxation is required to produce forms for reporting the details of the new accounts. The bill specifies that persons who knowingly make a false statement on a form, report, affidavit, or other communication in connection with a first-time home buyer savings account are guilty of falsification, a first degree misdemeanor. S.B. 24 does not include an appropriation to provide resources for required expenditures, or for other elements of administering the new tax deduction, but the Department may be able to cover increased expenditures using existing appropriations. LBO staff do not have an estimate of the possible increase in expenditures that the bill would require the Department to make.

## **Comparable states**

LBO economists are aware of similar policies in four other states: Montana, Virginia, Colorado, and Minnesota. LBO contacted governmental agencies in those four states, and they each reported the number of tax returns claiming this deduction (refer to table). Colorado and Minnesota recently adopted laws, so only three years of taxpayer data is available. Analogous policies in Montana (1997) and Virginia (2014) have been established long enough to yield more robust participant information. Separately, the realtors association for Montana reported about 10,000 homes were sold annually in recent years while their counterpart in Virginia cited 112,000 annual home sales from 2014-2017. Trends from these two states suggest the first-time home buyer deduction would be utilized by a number between 0.1% and 2.4% of statewide home sales. Due to the above-mentioned differences between Ohio and those states, LBO economists consider it imprudent to base an upper bound estimate on these percentages.

Elsewhere, Colorado and Minnesota reported few participants in the first three years after they enacted a tax deduction beginning in TY 2017. Their evidence demonstrates that participation in Ohio could be very low in the first few years following the start of this program on January 1, 2022.

| <b>Number of Individual Tax Returns Claiming First-Time Home Buyer Deduction</b> |                 |                  |                |                 |
|----------------------------------------------------------------------------------|-----------------|------------------|----------------|-----------------|
| <b>Taxable Year</b>                                                              | <b>Colorado</b> | <b>Minnesota</b> | <b>Montana</b> | <b>Virginia</b> |
| 2019                                                                             | 6               | 28               | 241            | unavailable     |
| 2018                                                                             | 4               | 25               | 226            | unavailable     |
| 2017                                                                             | NR              | 20               | 217            | 136             |
| 2016                                                                             | N/A             | N/A              | 215            | 103             |
| 2015                                                                             | N/A             | N/A              | 214            | 130             |
| 2014                                                                             | N/A             | N/A              | 161            | 105             |

Note: Montana statistics pertain to resident tax returns. Virginia information was sourced from an internal report generated by the Virginia Department of Taxation. They regard the data as preliminary because it is unaudited and unverified. Colorado says data for 2017 is "Not releasable due to confidentiality requirements (NR)."