Division of the Budget
Landon State Office Building
900 SW Jackson Street, Room 504
Topeka, KS 66612

Kansas
Division of the Budget

Phone: (785) 296-2436
adam.c.proffitt@ks.gov
http://budget.kansas.gov

Adam Proffitt, Director

Laura Kelly, Governor

February 9, 2021

The Honorable Jim Kelly, Chairperson
House Committee on Financial Institutions and Rural Development
Statehouse, Room 581A-W
Topeka, Kansas 66612

Dear Representative Kelly:

SUBJECT: Fiscal Note for HB 2187 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2187 is respectfully submitted to your committee.

HB 2187 would establish the First-Time Home Buyer Savings Account Act. The bill would allow individuals to open first-time home buyer savings accounts at a financial institution on and after July 1, 2022, to save for the purchase or construction of a primary residence. The primary residence would be required to be in the state, unless the designated beneficiary was active-duty military at the time the account was established then the residence could be out-of-state. The account holder would be required to designate a beneficiary on the account by April 15 of the year following the tax year that the account was established. The account cannot be used to purchase a manufactured or mobile home that is not taxed as real property.

Contributions to a first-time home buyer savings account would be limited in each tax year to $3,000 for individuals and $6,000 for a married couple filing a joint return. The maximum amount of contributions in all tax years would be limited to $24,000 for individuals and $48,000 for a married couple filing a joint return. The maximum amount in a first-time home buyer savings account could not exceed $50,000. If these limits are exceeded, then the interest or other income earned on the investments would be subject to state income taxes.

Calculations for Kansas income taxes are based on the Kansas adjusted gross income, which is calculated by adding or subtracting certain types of income from the amount of federal adjusted gross income. The bill would allow taxpayers to subtract the amount of contribution to a first-time home buyer savings account from income for Kansas income tax purposes beginning in tax year 2022. The bill limits the subtraction modification to $3,000 for individual taxpayers and $6,000 for a married couple filing a joint return, or the amount received as income earned from assets in a first-time home buyer savings account. The bill would require that if the taxpayer does not use the first-time home buyer savings account for the authorized uses or does not keep the account open for at least one year, then the taxpayer would be required to add back the amounts previously claimed for Kansas income tax purposes plus certain penalties. Penalties would not apply to a designated beneficiary that has died.

The bill requires the Department of Revenue to create forms for the account holder to use in filing annual state tax returns. Financial institutions would not be required to designate an account as a first-time home buyer savings account, track the use of monies, or report any information to the Department of Revenue. Financial institutions would not be responsible or liable for determining eligibility of an account holder, ensuring monies are used for eligible expenses, or for reporting or remitting taxes or penalties. The bill includes definitions of account, account holder, designated beneficiary, eligible expenses, financial institution, and first-time home buyer. The Department of Revenue would have the authority to write rules and regulations to implement the bill prior to July 1, 2022.

The Department of Revenue estimates that HB 2187 would decrease State General Fund revenues by $3,540,000 in FY 2023. The Department estimates that there would be similar reductions in State General Fund revenue in future fiscal years.

To formulate these estimates, the Department of Revenue reviewed data on overall home sales and the percentage of home sales purchased by first-time home buyers from the Kansas Association of Realtors and the National Association of Realtors. The Department indicates that there were 15,438 homes purchased in Kansas last year by first-time home buyers. Based on the assumption that taxpayers will make one maximum annual contribution for the program for each of the 15,438 first-time buyers ($6,000 for married couple filing a joint return and $3,000 for individual taxpayers), the total amount of contributions for tax year 2023 would be around $70.9 million ($49.1 million for married couples filing a joint return and $21.8 million for individual taxpayers). The Department then applied a 5.0 percent effective tax rate to the total contributions, which would result in a reduction of individual income tax receipts of approximately $3,540,000. The Department assumes that any recaptured amounts or penalties would be insignificant.

The Department indicates that the bill would require $168,249 from the State General Fund in FY 2022 to implement the bill and to modify the automated tax system. The bill would require the Department to hire 1.00 new FTE position to answer questions from taxpayers and to review, process, and manage the new first-time home buyer savings account tax credit. The costs to submit a report to the Legislature each year on the implantation and use of the First-Time Home Buyer Tax Credit are estimated to be negligible. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue. In addition, if the combined effect of implementing this bill and other enacted legislation exceeds the Department's programming resources, or if the time for implementing the changes is too short, additional expenditures for outside contract programmer services beyond the Department's current budget may be required. Any fiscal effect associated with HB 2187 is not reflected in *The FY 2022 Governor's Budget Report*.

Sincerely,

Adam Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue