



# Vermont Association of Realtors®

To: Senate Committee on Economic Development, Housing, and General Affairs

Subject: Memo in response to questions on other states' first-time home buyer savings account legislation  
January 26, 2022

For the last two years, the share of home buyers who are first-time home buyers is down six to nine points from the historical norm. A survey conducted by the Vermont Association of Realtors® asked Realtors to evaluate the obstacles that their buyers face. Lack of inventory in the price range that most people can afford ranked an average of 9.19 points out of 10. Having enough money for a down payment and closing costs was the next highest at 5.64. Clearly, the primary problem is a lack of supply. The secondary effect is that first-time home buyers who do not have access to the equity of a previous home are at a significant disadvantage in the marketplace. This is compounded by the high wages of out-of-state buyers who can pay cash or far above asking price.

While the State of Vermont has done an excellent job providing down payment assistance to struggling households, the income limits mean that many working Vermonters are still struggling to save for a down payment and closing costs. This is generally the “missing middle” and workforce of critical occupations that the State is trying to attract and retain.

Currently nine states have passed first-time home buyer savings account legislation. Michigan and Ohio are also poised to pass bills this year. While there are variations from state to state, most of the variables are the same or similar.

## **Who Qualifies?**

Almost all states define a first-time home buyer as someone who has not been listed on the title of a home in the last three years. Alabama is an outlier requiring a ten-year lapse. Most states require that the account holder be a resident of the state, but our proposed language and Colorado's law do not. Most states allow anyone to be an account holder and designate a qualified beneficiary. Oregon, Alabama, and our proposed language require that the account holder be a first-time home buyer. Anyone may contribute to their account, but only the first-time home buyer account holder may receive the tax credit/deduction.

## **The Property**

Only Minnesota allows for the cost of construction or construction financing. Most states require the home purchased to be a single-family home. We recognize that access to homeownership may be contingent upon the purchase of a duplex which can help offset the costs through renting the other unit. Therefore, we define an eligible purchase as an owner-occupied home of one to four units. Like other states, our definition encompasses: manufactured home, residential trailer, mobile home, condominium unit, or cooperative.



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All states require the account holder to file a 1099 Form each year and closing statements at the time of withdrawal.

## **Accounts and Limits**

About half of the states limit the lifetime of the account to 10 years. Alabama has a 5-year limit and the rest have none. Michigan notably requires that the account exist for one year before a withdrawal be made. This ensures that people are using the account to save rather than avoid taxation.

At least five states have a life-time contribution limit for an individual of \$50,000. Many states allow a maximum of \$5,000 contributions for individual filers per year. Colorado and Minnesota allow \$14,000 while Missouri only allows \$1,600.

States that have a total maximum allowed in the account, including interest, have it set at \$150,000. Almost every state has a penalty of 10% for improper withdrawal. Virginia's is 5%. Oregon has tiered contribution limits based on Adjusted Gross Income.

We were asked if anyone has raised concerns about the ongoing costs to state revenues. We have found that there was actually the opposite concern in many states. Most states were concerned about making sure that people were aware of the program and could utilize it. Other states that have this program have predicted and reported small very small impacts on state revenues.

If this bill passes, the Vermont Association of Realtors® can apply for a grant from the National Association of Realtors® to do a consumer outreach campaign to ensure that Vermonters know about this program.

## **States with FHSA Law:**

Alabama, Colorado, Iowa, Minnesota, Mississippi, Missouri, Montana, Oregon, Virginia

## **States with pending bills:**

Ohio – recently passed out of House of Representatives (94-0)

Michigan – Passed the House, expected to be passed out of the Senate in the next few weeks

## **Other states with pending bills or who have bills that timed out in the last legislative session:**

Louisiana, Massachusetts, Nebraska, New Jersey, New York, Pennsylvania, West Virginia



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		General Average down payment	Buyers 30 and under average down payment	Tax rate	Number of FHB filers (10% take up rate)	Number of FHB filers max*	*Assuming 41% of VT home buyers are first- time home buyers. (Northeast average) National average is 34%
		12%	6%	6.60%	397	3977	
Median Home Price in VT	\$ 324,950	\$ 38,994	\$ 19,497	\$ 1,287	\$ 510,860	\$ 5,117,612	
National Median First- time home buyer	\$ 252,000	\$ 30,240	\$ 15,120	\$ 998	\$ 396,174	\$ 3,968,728	
Range of down payment savings for FHB is likely to be \$15,120 - \$38,994							
Range of cost to the state in lost revenue of principal could range from \$396,174 (or lower) to \$5,117,612 (unlikely)							

JFO would need to do a more comprehensive fiscal impact analysis, but the table above shows what the expected revenue loss could be for the state if the principal contribution is free from income tax.

Other states report very low uptake especially in the first few years. Based on other states' experiences, 10% participation appears to be a reasonable basis for calculation. The costs would be very minimal at first and then grow as more people hear about the program and then level off. The chart above does not consider over how much time those contributions would be distributed. What it can tell us is that it would cost the state approximately \$400,000-\$500,000 on the principal of about 400 first-time home buyers.

It is important to remember that the state will eventually collect taxes once the real estate transaction occurs.

Links to other states' fiscal impact projections and statements can be found here:

[Colorado](#)

[Iowa](#)

[Missouri](#)

[Oregon](#)