

**DEPARTMENT OF TAXATION
2009 Fiscal Impact Statement**

1. **Patron** Christopher K. Peace

3. **Committee** House Finance

4. **Title** Individual Income Tax; Homebuyer Credit.

2. **Bill Number** HB 1721

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would allow any eligible taxpayer who makes a qualified purchase of a house to claim a credit against individual income taxes equal to \$1,250 for single taxpayers and \$2,500 for joint filers. If the amount of the credit exceeds the taxpayer's liability for a taxable year, the excess could be carried over for credit against the tax in the next five taxable years until the total amount of the tax credit has been taken. This bill would be applicable to qualified purchases made on or after January 1, 2009, but before January 1, 2010.

In the first taxable year during which no credit remained to be taken, the taxpayer would be required to repay the total amount of the credit over a period not to exceed the next 10 taxable years by submitting with his income tax return an annual repayment of at least \$125 for single taxpayers or married taxpayers filing separately and \$250 for taxpayers who are married filing jointly.

This bill contains an emergency clause which states that it would be in force from its passage.

6. Fiscal Impact Estimates are: Preliminary. (See Line 8.)

6b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2008-09	\$0	GF
2009-10	(\$74.3 million)	GF
2010-11	(\$0.8) million)	GF
2011-12	\$8.3 million	GF
2012-13	\$8.3 million	GF
2013-14	\$8.3 million	GF
2014-15	\$8.3 million	GF

7. Budget amendment necessary: Yes.

Page 1, Revenue Estimates

8. Fiscal implications:

Administrative Costs

TAX has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our systems and forms. As stand-alone legislation, TAX considers implementation of this bill as "routine," and does not require additional funding.

TAX will provide specific administrative costs on any legislation that is not "routine." Additionally, TAX will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills likely to pass either house is unusually large, it is possible that additional resources will be required. If so, TAX will identify the costs at that time.

Revenue Impact

According to the Census Bureau's 2005 American Housing Survey (AHS), approximately 2.4 million new households bought their first homes during 2005 nationwide. Using historical data and the current forecast by the National Association of Realtors, it was determined that there will be approximately 48,000 purchases of homes by first time homebuyers in Virginia in 2009.

Using AHS survey data to analyze characteristics of first time homebuyers, including marital status and income levels, it is estimated that this bill would conservatively reduce revenue by \$74.3 million in Fiscal Year 2010 and \$0.8 million in Fiscal Year 2011. Fiscal Years 2012 through 2020 would each see a revenue gain of \$8.3 million. This estimate is tentative, however, because it is based on national data and because of the volatility of the current housing market and financial institutions.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

In order to clarify the amount of credit available to married taxpayers filing separately, the following technical amendments are suggested:

Page 1, Line 15, after means an individual

Strike: whose federal adjusted gross income does not exceed \$75,000, or \$150,000 for married taxpayers

Insert: or married taxpayer filing separately whose federal adjusted gross income does not exceed \$75,000, or \$150,000 for married taxpayers filing jointly

Page 1, Line 23, after filing as single

Insert: or married taxpayers filing separately

11. Other comments:

Federal Tax Provisions

The Housing and Economic Recovery Act of 2008, H.R. 3221, created a refundable tax credit for a taxpayer who is a first-time homebuyer. The credit is equal to the lesser of \$7,500 (\$3,750 for a married individual filing separately) or 10 percent of the purchase price of a principal residence. A taxpayer is considered a first-time homebuyer if such individual had no ownership interest in a principal residence in the United States during the 3-year period prior to the purchase of the home to which the credit applies. The credit is recaptured ratably over fifteen years with no interest charge beginning in the second taxable year after the taxable year in which the home is purchased.

Additionally, taxpayers claiming itemized deductions may be allowed to deduct home mortgage interest. Home mortgage interest is interest a taxpayer pays on a loan secured by the taxpayer's main home or second home. In addition, taxpayers may be allowed to deduct amounts paid for qualified mortgage insurance premiums. These itemized deductions will also flow through to the Virginia income tax return.

Proposal

This bill would allow any eligible taxpayer who makes a qualified purchase of a house to claim a credit against individual income taxes equal to \$1,250 for single taxpayers and \$2,500 for joint filers. If the amount of the credit exceeds the taxpayer's liability for a taxable year, the excess may be carried over for credit against such tax in the next five taxable years until the total amount of the tax credit has been taken. This bill would be applicable to qualified purchases made on or after January 1, 2009, but before January 1, 2010.

An "eligible taxpayer" would be defined as an individual whose federal adjusted gross income does not exceed \$75,000, or \$150,000 for married taxpayers. In addition, the taxpayer and his spouse, if married, must have had no ownership interest in a principal residence during the three-year period ending on the purchase date of the residence for which the credit is applicable.

A "qualified purchase" would be defined as the purchase of a house on or after January 1, 2009, but before January 1, 2010, by an eligible taxpayer or taxpayers to be used as their principal residence.

In the first taxable year during which no credit remained to be taken, the taxpayer would be required to repay the total amount of the credit over a period not to exceed the next 10 taxable years by submitting with his income tax return an annual repayment of at least \$125 for single taxpayers or married taxpayers filing separately and \$250 for taxpayers who are married filing jointly.

If the taxpayer is entitled to receive a refund for any taxable year in which a repayment is due, the repayment amount would be deducted from the refund amount. If the refund amount exceeds the repayment amount, the taxpayer would be entitled to the excess. However, if the repayment amount exceeds the refund amount, the taxpayer would be required to submit the excess amount with his income tax return to TAX.

If the taxpayer disposes of the residence or it ceases to be the principal residence of the taxpayer and his spouse, if married, before the end of the 10-year repayment period, any remaining amount to be repaid would be due with the taxpayer's income tax return for the taxable year during which the residence ceased to be the taxpayer's principal residence.

This bill contains an emergency clause which states that it would be in force from its passage.

Similar Bills

Senate Bill 906 would allow any eligible taxpayer who makes a qualified purchase of a house to claim a credit against individual income taxes equal to \$2,500 for single taxpayers and \$5,000 for joint filers. This bill would be applicable to qualified purchases made on or after January 1, 2009, but before January 1, 2011. Unlike House Bill 1721, the taxpayer would not be required to repay the credit, except in certain situations.

cc : Secretary of Finance

Date: 1/16/2009 JKL
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