SB 825 A STAFF MEASURE SUMMARY

Carrier: Sen. Meek

Senate Committee On Finance and Revenue

Action Date:	05/31/23
Action:	Do pass with amendments. (Printed A-Eng.)
Vote:	5-0-0-0
Yeas:	5 - Boquist, Findley, Golden, Jama, Meek
Fiscal:	Fiscal impact issued
Revenue:	Revenue impact issued
Prepared By:	Kyle Easton, Economist
Meeting Dates:	2/27, 5/31

WHAT THE MEASURE DOES:

Modifies provisions governing first-time home buyer savings accounts. Specifies records taxpayer is required to maintain and furnish upon request to Department of Revenue. Provides administrative rulemaking authority to Department of Revenue and specifies limits on such rules. Defines qualified beneficiary. Allows funds to be withdrawn without penalty from a first-time homebuyer savings account if funds are used for qualified purpose of account holder or a designated qualified beneficiary. Eliminates requirement of financial institutions to provide account certificate beginning with 2024 calendar year. Specifies financial institutions are not required to designate accounts as first-time home buyer savings account. Applies to first-time home buyer savings accounts created on or after January 1, 2024. Takes effect on 91st day following adjournment sine die.

ISSUES DISCUSSED:

- Definition of first-time homebuyer, ability for individuals to be considered a first-time homebuyer multiple times
- Amendment expected
- Limited availability of first-time homebuyer savings accounts with financial institutions
- Financial institution requirements that may be restricting availability savings accounts being offered
- Shifting requirements from financial institutions to the individual
- Tax enforcement/oversight by Department of Revenue
- Subtraction phase out based on taxpayer's adjusted gross income (AGI).

EFFECT OF AMENDMENT:

Replaced content of measure.

Allows funds to be withdrawn without penalty from a first-time homebuyer savings account if funds are used for qualified purpose of account holder or a designated qualified beneficiary. Makes conforming changes.

BACKGROUND:

In 2018, Oregon created a personal income tax subtraction available to first-time homebuyers utilizing a first-time homebuyer savings account. Taxpayers may annually subtract from taxable income cash contributed to a first-time homebuyer savings account along with earnings on deposits in the account, though earnings are subject to taxation when withdrawn. The subtraction is limited annually to $5,000 for individually filing taxpayers (single) and $10,000 for joint filers. First-time homebuyer is defined as an Oregon resident who has not owned or purchased a single-family residence within three years of purchasing the single-family residence to which the first-time homebuyers savings account funds were used. The subtraction may be claimed each year for up to ten years and the combined principal and earnings that may be subtracted is limited to $50,000. For the 2021 tax year, the respective annual subtraction limits are phased out beginning at $104,000 in adjusted gross income (AGI) for single filers and $149,000 for joint filers (phase outs are indexed to inflation). Account withdrawals must be used for home purchase within ten years of account opening and any amounts withdrawn for an unqualified purpose must be added back to income at time of withdrawal and are subject to a five percent penalty.

In 2022, nearly 1,500 taxpayers claimed the first-time homebuyer savings account income tax subtraction. The average subtraction per taxpayer was about $5,500 equating to an average tax savings of about $450 per taxpayer. The overall loss in General Fund revenue from the subtraction was about $650,000 for tax year 2020.