

FISCAL NOTE
Requested by Legislative Council
01/07/2019

Bill/Resolution No.: HB 1241

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2017-2019 Biennium		2019-2021 Biennium		2021-2023 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2017-2019 Biennium	2019-2021 Biennium	2021-2023 Biennium
Counties			
Cities			
School Districts			
Townships			

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1241 creates a new income tax deduction for North Dakota residents who set up a first-time home buyer savings account for the purpose of paying the eligible costs of buying a home in the state.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 1 of the bill provides a new income tax deduction for residents equal to the amount of monies deposited into a first-time home buyer savings account during the tax year, up to a maximum deduction of \$2,000, or \$4,000 if filing jointly. If monies deposited into an account exceed the allowable deduction for the year, the taxpayer may claim a deduction in the following tax year for the excess amount up to the maximum annual deduction. A first-time home buyers savings account and associated income tax deduction are valid for a 10-year period beginning with the year in which the account is established. The maximum amount a taxpayer may deduct over the 10-year period is limited to \$20,000, or \$40,000 if filing jointly.

Section 2 of the bill provides that a taxpayer must add to North Dakota taxable income any amount withdrawn from the account for other than the payment of eligible costs, to the extent the amount withdrawn was previously deducted. Also, any monies remaining in an account on January 1st of the account's 11th year must be added to North Dakota taxable income.

Section 3 of the bill sets out the provisions governing the establishment and administration of a first-time home buyer savings account.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

If enacted, HB 1241 may reduce state general fund revenues in the 2019-21 biennium. The amount of the reduction, if any, cannot be determined because it is unknown to what extent the first-time home buyer savings account provisions will be utilized.

Housing Finance Agency reports 1,680 first-time home buyers in 2018. These individuals have not owned a home in at least three years, which differs from the requirements in HB 1241. Additionally, only a portion of all first-time home buyers are able to utilize HFA programs. The universe of qualifying first-time home buyers that could potentially benefit from the provisions of HB 1241 is likely larger than 1,680.

The individual income tax rates currently range from 1.10% to 2.90%, which means a \$2,000 deduction would reduce the tax liability between \$22 to \$58 per year, or from \$44 to \$116 in the case of a \$4,000 deduction.

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*
- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

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Agency: Office of Tax Commissioner

Telephone: 701.328.3402

Date Prepared: 01/14/2019

2019 HOUSE FINANCE AND TAXATION COMMITTEE

HB 1241

2019 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1241
1/16/2019
30888

- Subcommittee
 Conference Committee

Committee Clerk: Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill relating to an individual income tax deduction for contributions made to a first time home buyer savings account; and to provide an effective date.

Minutes:

Attachment 1-3

Chairman Headland: Opened hearing on HB 1241.

Representative Louser: Introduced bill. This is an incentive for a first-time home buyer to put money aside in a savings account to purchase their first home. The bill reads you cannot have purchased a home ever, whether in North Dakota or somewhere else. This is for somebody who has never purchased a property before. The purpose and intent is to help incentivize an individual or married couple to buy a property in North Dakota and then to stay here, live here, and work here. When you get somebody to commit to buying a property they will probably stay for a while. This idea has been implemented recently in Iowa. Something even more similar has been on the books for a while in Montana. In a state where you have a low income tax this incentive is reduced. If you choose to eliminate the income tax, then this wouldn't be used. This bill allows up to \$2,000 deduction per year for an individual or \$4,000 deduction for a married couple filing jointly. The money that would be set aside in their account would be designated to be used for the down payment or the closing cost assistance when they purchase their home. It doesn't require them to use a specific loan program or specific lender. If FHA financing, North Dakota First Time Home Buyers, or conventional financing is best for them this money could be used as a down payment or closing cost assistance. If they use that money for something else, they would owe the taxes they saved for a year and took the deduction. There is a cap of \$20,000 or \$40,000 deduction if filing jointly. The fiscal note shows that there is somewhere under 2,000 people that would have qualified under the First Time Home Buyer program last year. I think the number of people who choose this path would be something less than 2,000 not more than this. Based on the tax rates that isn't a lot of money being deducted or a lot of tax dollars not coming to the state. This is an incentive to help people buy a property in North Dakota. Once you buy a property that improves the chances the person will stay in the state and start a business, start a family, and be a productive member of the community. This isn't a grant or a credit; it's a deduction. This is a very small part to attract and maintain people in North Dakota.

Representative Steiner: In Montana they have an income category of anything over \$60,000 then you don't qualify for First Time Home Buyer. Is that somewhere in the law already?

Representative Louser: That's under the First Time Home Buyer program. In North Dakota there are income limits and one of the parameters is not owning a home in the last three calendar years. This isn't intended to be confused with that program. There is no income limit in this program. Anybody can contribute into the savings account.

Representative Steiner: If you have someone that moves here making \$110,000 a year, have never bought a home before, they have a lot of student debt, and are in the medical field under this program would they qualify?

Representative Louser: Yes under this law. There is a program to qualify for First Time Home Buyer and in your example they wouldn't qualify for that type of financing. Under this law they would be able to put money aside into a savings account and use it towards the purchase of a home in the future. We're saying they haven't owned real estate before.

Chairman Headland: If you have purchased a condominium and chose not to go the route of First Time Home Buyer you would be disqualified?

Representative Louser: This is intended for someone who has never purchased a home before. The intent is to attract someone into home ownership that has never owned before and that includes contract for deed.

Representative Ertelt: On the top of page 3 there's a statement that there are no limitations on the amount of contributions that may be made to or retained in a First Time Home Buyers savings account. On page 4 an account owner is limited to exempting a maximum of \$20,000 or \$40,000 if a joint return is filed over any combination of taxable years. Aren't those conflicting?

Representative Louser: No, they are not conflicting. If I want to put \$10,000 a year into my savings account to save to buy a half million-dollar home with \$100,000 down I can do that. I can only exempt \$2,000 for tax deduction purposes each calendar year.

Representative Dockter: This is just a deduction and goes into a savings account? This won't affect anything like DECA funds?

Representative Louser: That's right. The person who chooses to take this tax deduction could then apply for that type of loan and qualify for that loan. The next person could choose not to use that program but chooses to use the VA program so then there's no money down because that's one of the benefits of the VA loan, zero down payment. There are closing costs associated with that so they could use the money in their savings account to pay them. It just depends on what is best for them at the time.

Representative B. Koppelman: With the current program versus this law is there an easy way to verify if someone was a homeowner before?

Representative Louser: When they apply for the loan under the program they will ask for three years of tax returns then they can see if there was mortgage interest deduction taken. This bill is very inexpensive. If 2,000 people do this there would be minimal impact on the state income tax but a large impact long term when somebody buys a home in their community.

Chairman Headland: The transaction report that requires the information regarding the eligible cost, if you never buy a house how is the tax department ever going to know and how is it going to be policed?

Representative Louser: When you file your taxes you're going to want to take the deduction otherwise there is no point in doing this. If you withdraw the money out of the account, you'll have a tax liability.

Chairman Headland: But how is he going to know?

Representative Louser: I would think they would know that when the money is drawn out of the account, since it's designated as a savings account for that purpose, but they didn't use it for the purchase. Maybe the tax department could help figure that out.

Representative Hatlestad: If I put \$40,000 away and I have \$10,000 left in the account after a down payment and closing costs, will I have to pay taxes on that?

Representative Louser: Yes. If you put \$40,000 in the account over five years as opposed to ten years then you didn't get the benefit of the full \$40,000, you only got the benefit of five years. If you did it filing jointly then you only got the benefit of \$20,000 of tax deduction so the other \$20,000 you could take out without a penalty.

Chairman Headland: Interest rates are not conducive to savings right now so what's the incentive for anybody to do it other than the tax deduction?

Representative Louser: We're going to be seeing rising interest rates over time on mortgages. If you set aside the fact that money is sitting in your checking or savings account in some institution earning a low interest rate you're also looking at the long term impact of interest rates rising for mortgages. It would make more sense to put more money down to limit your exposure to higher interest over 30 years in your mortgage.

Chairman Headland: Further testimony in support?

Greg Larson, North Dakota Association of Realtors: Distributed written testimony, see attachment #1. Also distributed written testimony for Heather Nord, see attachment #2. Ended testimony at 22:50.

Representative Hatlestad: At the bottom of the first page of your testimony it says the savings are allowed to grow tax free. The interest earned on the savings account is tax free?

Greg Larson: Yes sir.

Representative Hatlestad: I didn't recall seeing that in the bill.

Greg Larson: Now I'm questioning myself I'm not sure but I think they are.

Chairman Headland: We're getting a no response from the tax department.

Greg Larson: Okay, then I stand corrected.

Representative Hatlestad: At the current rate of interest it's not going to amount to a great deal of money.

Greg Larson: You're right, it's not a lot of money. The whole concept is to get the money into a savings account.

Chairman Headland: Further support?

Representative Owens: I stand in support of this bill as another tool in the toolbox. I've been involved in credit unions for over 20 something years so I'm very familiar with real estate, interest rates, and everything. The recent forced interest rate reduction did a lot of damage to small credit unions and small community banks. It was set up to go after the big banks originally but it increased the big banks and shut down small banks. Interest rates are coming back and will be back. The banks will have to set up an account and categorize it to show it's a qualifying account to track the fact that interest was earned but taxes were not paid. When it's reported it has back up withholdings or are reported on a 1099. There are some administrative issues here. We've had a large increase in North Dakota in this low interest environment because business loans were so readily available in apartment construction. It's hard for young people to get started especially with student loans and things like that. There is also this thing called specials which I believe is an illegal tax. This also creates a problem when buying a home, particularly to young people. All of these are reasons, along with eliminating the PMI cost while they're trying to pay their student loans if they can save enough for the down payment to get that 20 percent. We will have an increase in buying, in home ownership, and workforce.

Chairman Headland: Further testimony in support?

Judy Maslowski, licensed realtor: Distributed written testimony, see attachment #3. Ended testimony at 32:08.

Chairman Headland: Further support? Is there any opposition? Any questions or clarification from the tax department? Seeing none we will close the hearing on HB 1241.

2019 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1241
1/29/2019
31740

- Subcommittee
 Conference Committee

Committee Clerk: Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill relating to an individual income tax deduction for contributions made to a first time home buyer savings account; and to provide an effective date.

Minutes:

No attachments

Chairman Headland: We're open for discussion. What do you want to do with this bill? This bill is setting up an account for the first time home buyers.

Representative Dockter: I don't see the reason for this bill. There are other ways to save money for the first time home buyer. On Roth IRAs they allow you to save if you're a first time home buyer then after five years you can use it without any penalty. There are other programs as well. **MADE A MOTION FOR A DO NOT PASS.**

Representative Trottier: SECONDED

Chairman Headland: Discussion?

ROLL CALL VOTE: 10 YES 4 NO 0 ABSENT

MOTION CARRIED

Representative Ertelt will carry this bill.

2019 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1241
2/6/2019
32249

- Subcommittee
 Conference Committee

Committee Clerk: Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill relating to an individual income tax deduction for contributions made to a first time home buyer savings account; and to provide an effective date.

Minutes:

No attachments

Chairman Headland: This bill was sent back to our committee so let's take a look.

Representative Dockter: MADE A MOTION TO RECONSIDER

Representative Fisher: SECONDED

Chairman Headland: Is there any reason somebody would want to change their vote?

Representative Dockter: I talked with the bill sponsor. There's no fiscal note.

Chairman Headland: We all know there is a revenue reduction.

Representative Dockter: I think there are other vehicles. I don't think the government should have something set up for first time home buyers, they can figure that out themselves.

Chairman Headland: There is already a bunch of government programs for this.

Representative B. Koppelman: I don't think it hurts anything by being a deduction rather than a credit. It's kind of a novel concept to encourage home ownership based on savings. I think this is a more positive way of being a home owner and better than some of the other incentives that might be promoted by the feds which would encourage not as responsible home ownership. I would hope that others would reconsider.

Representative Ertelt: I was the carrier on this bill so I did a little digging into those different programs. The North Dakota Housing Finance Agency currently have nine programs to assist with purchasing a home. The idea was more palatable to me when I was putting this together. I'm not strongly opposed to it anymore. I am definitely willing to reconsider my vote.

Representative Trottier: There are so many programs out there. The incentive is there on an individual basis for people to save if they need a down payment. I'll keep my same vote.

Representative B. Koppelman: If you think of the programs that were just described with no money down it sounds like a gimmick. I believe most of you would say not to use the taxpayers' dollars and subsidize people's housing. Which of these state programs would you support instead of this? I still think this is better.

Representative Steiner: I feel that if we're truly going to limit government we should draw the line and give it a do not pass.

Chairman Headland: Is there anything else?

VOICE VOTE ON THE RECONSIDERATION: MOTION CARRIED

Representative Steiner: MADE A MOTION FOR A DO NOT PASS

Representative Blum: SECONDED

Chairman Headland: Is there any discussion?

ROLL CALL VOTE: 4 YES 10 NO 0 ABSENT

MOTION FAILED

Representative B. Koppelman: MADE A MOTION FOR A DO PASS

Representative Eidson: SECONDED

Chairman Headland: Discussion?

ROLL CALL VOTE: 8 YES 6 NO 0 ABSENT

MOTION CARRIED

Representative B. Koppelman will carry this bill.

2019 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Fort Totten Room, State Capitol

HB1241
2/6/2019
32310

- Subcommittee
 Conference Committee

Committee Clerk: Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill relating to an individual income tax deduction for contributions made to a first time home buyer savings account; and to provide an effective date.

Minutes:

No attachments

Chairman Headland: Can we reconsider our actions on HB 1241 for one more time?

Vice Chairman Grueneich: MADE A MOTION TO RECONSIDER

Representative Steiner: SECONDED

VOICE VOTE: MOTION CARRIED

Chairman Headland: Would somebody make a motion for a do pass?

Representative Mitskog: MADE A MOTION FOR A DO PASS

Representative B. Koppelman: SECONDED

Chairman Headland: Discussion?

ROLL CALL VOTE: 11 YES 3 NO 0 ABSENT

MOTION CARRIED

Representative B. Koppelman will carry this bill.

**2019 HOUSE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. 1241**

House Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
 Other Actions: Reconsider _____

Motion Made By Rep. Darter Seconded By Rep. Trottier

Representatives	Yes	No	Representatives	Yes	No
Chairman Headland	✓		Representative Eidson	✓	✓
Vice Chairman Grueneich	✓		Representative Mitskog	✓	
Representative Blum	✓				
Representative Dockter	✓				
Representative Ertelt	✓				
Representative Fisher	✓	✓			
Representative Hatlestad	✓	✓			
Representative Kading	✓	✓			
Representative Koppelman	✓	✓			
Representative Steiner	✓	✓			
Representative Toman	✓	✓			
Representative Trottier	✓				

Total (Yes) 10 No 4

Absent 0

Floor Assignment Rep. Ertelt

If the vote is on an amendment, briefly indicate intent:

Date: 2-6-19
Roll Call Vote #: 1

2019 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1241

House Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar

Other Actions: Reconsider _____

Motion Made By Rep. Dockter Seconded By Rep. Fisher

Representatives	Yes	No	Representatives	Yes	No
Chairman Headland			Representative Eidson		
Vice Chairman Grueneich			Representative Mitskog		
Representative Blum					
Representative Dockter					
Representative Ertelt					
Representative Fisher					
Representative Hatlestad					
Representative Kading					
Representative Koppelman					
Representative Steiner					
Representative Toman					
Representative Trottier					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:

Voice Vote = Motion carried

Date: 2-6-19
 Roll Call Vote #: 2

**2019 HOUSE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. 1241**

House Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: _____

- Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
 Other Actions: Reconsider _____

Motion Made By Rep. Steiner Seconded By Rep. Blum

Representatives	Yes	No	Representatives	Yes	No
Chairman Headland		✓	Representative Eidson		✓
Vice Chairman Grueneich	✓		Representative Mitskog		✓
Representative Blum		✓			
Representative Dockter		✓			
Representative Ertelt		✓			
Representative Fisher		✓			
Representative Hatlestad		✓			
Representative Kading	✓				
Representative Koppelman		✓			
Representative Steiner	✓				
Representative Toman		✓			
Representative Trottier	✓				

Total (Yes) 4 No 10

Absent 0

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:
Motion failed.

Date: 2-6-19
Roll Call Vote #: 3

2019 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1241

House Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
Other Actions: Reconsider _____

Motion Made By Rep. Koppelman Seconded By Rep. Eidson

Representatives	Yes	No	Representatives	Yes	No
Chairman Headland		✓	Representative Eidson	✓	
Vice Chairman Grueneich		✓	Representative Mitskog	✓	
Representative Blum	✓				
Representative Dockter		✓			
Representative Ertelt	✓				
Representative Fisher	✓				
Representative Hatlestad	✓				
Representative Kading		✓			
Representative Koppelman	✓				
Representative Steiner		✓			
Representative Toman	✓				
Representative Trottier		✓			

Total (Yes) 8 No 6

Absent 0

Floor Assignment Rep. Koppelman

If the vote is on an amendment, briefly indicate intent:

Date: 2-6-19
Roll Call Vote #: 1

2019 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1241

House Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar

Other Actions: Reconsider _____

Motion Made By Rep. Grueneich Seconded By Rep. Steiner

Representatives	Yes	No	Representatives	Yes	No
Chairman Headland			Representative Eidson		
Vice Chairman Grueneich			Representative Mitskog		
Representative Blum					
Representative Dockter					
Representative Ertelt					
Representative Fisher					
Representative Hatlestad					
Representative Kading					
Representative Koppelman					
Representative Steiner					
Representative Toman					
Representative Trottier					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:

Voice Vote: Motion Carried

Date: 2-6-19
Roll Call Vote #: 2

2019 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1241

House Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
Other Actions: Reconsider _____

Motion Made By Rep. Mitskog Seconded By Rep. Koppelman

Representatives	Yes	No	Representatives	Yes	No
Chairman Headland	✓	✓	Representative Eidson	✓	
Vice Chairman Grueneich		✓	Representative Mitskog	✓	
Representative Blum	✓				
Representative Dockter	✓				
Representative Ertelt	✓				
Representative Fisher	✓				
Representative Hatlestad	✓				
Representative Kading		✓			
Representative Koppelman	✓				
Representative Steiner	✓				
Representative Toman	✓				
Representative Trottier		✓			

Total (Yes) 11 No 3

Absent 0

Floor Assignment Rep. Koppelman

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1241: Finance and Taxation Committee (Rep. Headland, Chairman) recommends **DO NOT PASS** (10 YEAS, 4 NAYS, 0 ABSENT AND NOT VOTING). HB 1241 was placed on the Eleventh order on the calendar.

REPORT OF STANDING COMMITTEE

HB 1241: Finance and Taxation Committee (Rep. Headland, Chairman) recommends **DO PASS** (11 YEAS, 3 NAYS, 0 ABSENT AND NOT VOTING). HB 1241 was placed on the Eleventh order on the calendar.

2019 SENATE FINANCE AND TAXATION

HB 1241

2019 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Lewis and Clark Room, State Capitol

HB 1241
3/11/2019
Job #33507

- Subcommittee
 Conference Committee

Committee Clerk: Alicia Larsgaard

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to create and enact two new subdivisions to subsection 2 of section 57-38-30.3 and chapter 54-38.7 of the North Dakota Century Code, relating to an individual income tax deduction for contributions made to a first-time home buyer savings account; and to provide an effective date.

Minutes:

Attachments: 4

Chairman Cook: Called the hearing to order on HB 1241.

Representative Scott Louser, District 5, Minot: Introduced the bill. The concept of this bill is to allow for a potential homebuyer to set aside money in a savings account and get a tax deduction while they do it. This concept was successfully passed in Iowa. We modeled the language after the law that is in place in Montana. This would allow for up to \$2,000 for an individual or \$4,000 for a married couple to be placed into a savings account for the purposes of a down payment and or closing costs in the purchase of a first home. It maximizes at \$20,000 for an individual and \$40,000 for a married couple. The excesses that might be made in a given year can be carried forward to the following year for the deduction. The contributions can be made on behalf of another person. This is different than the first time homebuyer program. That is a finance program through the ND Housing Finance Agency. This is an account that would be designated for future use for a purchase of a home. Under the ND Housing Finance, you cannot have owned a home in the last 3 years. This bill is that you can never have owned a home. This would truly be your first property you purchase. It has nothing to do with financing. It is simply a savings account for the down payment and closing cost. The individual could use any bank. We learned that the banks are in favor of this. This is a deduction, not a credit. The House committee that heard this bill preferred this bill over many they heard. They had to say no to many. You will see the fiscal note and it can explain what this does.

On page 2, somebody that might qualify; what they looked at was that the Housing Finance Agency reported 1,680 eligible first time homebuyers in 2018. Those are the people that applied and qualified because they had not owned a home in the last 3 years. The universe of people that this could apply to might be much larger. Although, the amount of money per individual is minimal. They could not come up with a number because they did not know how

many people would use this. You can see the individual income tax rates given from 1.1 to 2.9. The \$200,000 deduction would amount to somewhere less than \$60 per year for the individual and less than \$120 for a married couple. It is not something that is going to break our budget.

There was a question on the floor of the House that was given to the bill carrier that did not know how to answer. There was a first time home buyer tax credit that was available federally after the 2008 housing crash. That expired in 2010. At the end of 2010, that \$8,000 credit to buy a home went away. There was a rush of people buying housing across the country to close by the end of 2010. If they had an \$8,000 tax liability, that credit offset their tax liability. The end result was that they owned a home.

We talk a lot this session about work force development and finding ways to encourage our citizens to apply for employment and stay in ND. Buying a home is a larger commitment than taking a job. I found the net worth of homeowners in 2018 was \$195,000. That is 36 times that those of renters. Another study a month later showed the new worth was \$231,000 which is 44 times that of renters. I do not know which one is accurate. This is one of those bills that does not have a large fiscal note. It is completely open to the individual to use. It applies to every constituency group and every market across ND. I am not aware of any opposition. I would be happy to answer any questions.

Senator Patten: My district has an extreme shortage of single family housing. I am always appreciative when I see something that would help with that. My concern is if that value is enough for people to make use of it. \$22-\$116 In the scope of buying a home, that is rounding errors. Going back to using the deduction versus the credit. That credit seems to be more significant as far as value goes.

Representative Louser: I agree. The deduction model out of Montana seemed more palatable to the House. This would not apply immediately because the ability to save that money over time; hopefully the housing issue would be resolved in Watford City. This is something that between the real estate industry and the mortgage industry, hopefully they can encourage people to plan for the future and invest in their community. I would be happy to raise that number but we thought \$2,000 for an individual was appropriate for setting money aside for a house. That is a worthy goal for someone who is single and has never bought a home.

Greg Larson, ND Association of REALTORS: Testified in favor of the bill. See attachment #1, #2, and #3.

Judy Maslowski, Realtor, Director on Bismarck Mandan Board of Realtors, Director ND State Board of Realtors: Testified in favor of the bill. See attachment #4.

Chairman Cook: Any further testimony on this bill? Hearing none, we will close the hearing on HB 1241.

2019 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Lewis and Clark Room, State Capitol

HB 1241
3/19/2019
Job #33925

- Subcommittee
 Conference Committee

Committee Clerk: Alicia Larsgaard

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to create and enact two new subdivisions to subsection 2 of section 57-38-30.3 and chapter 54-38.7 of the North Dakota Century Code, relating to an individual income tax deduction for contributions made to a first-time home buyer savings account; and to provide an effective date.

Minutes:

Attachments: 0

Chairman Cook: Called the committee to order on HB 1241.

Chairman Cook: Senator Patten, you are a banker. Do you see this being used much?

Senator Patten: Due to the nature of the deduction and what is located in the fiscal note, for an individual \$22 - \$53 or from \$44 - \$116, is not significant in a home purchase. I cannot see it being used very much from that standpoint.

Senator Meyer: I remember partaking in some interim real estate meetings. That was my biggest concern. I do not know if it is enough of an effect. I know the NDAR I supporting it so I may have to be supportive of this bill.

Senator Patten: There is no downside to it other than the upside effect tis extremely minimal.

Senator Unruh: Moved a Do Not Pass on HB 1241.

Senator Dotzenrod: Seconded.

Chairman Cook: Any Discussion?

Senator Dotzenrod: On page 4, line 28 and 29, they are identifying what the financial institution is supposed to do. I suppose if there is a real estate transaction, the bank would want some copies.

Senator Meyer: Wouldn't that be handled in administrative rules and then you would have the closing disclosure at the title company which would list out the breakdown on everything? Would that be handle in administrative rules defining what eligible costs are?

Chairman Cook: I do not think so. There is no direction to do so.

Senator Patten: Ultimately, there is more time spent on the bookkeeping on this from the bank's standpoint than there would be in value for the home buyer.

Senator Dotzenrod: If the bank is going to take on these responsibilities, do they get compensated? I suppose the benefit to them is that they have the account. That is probably their reward in this.

Senator Unruh: It would probably charge them in closing fees.

A Roll Call Vote Was Taken: 5 yeas, 1 nay, 0 absent

Motion Carried.

Senator Patten will carry the bill.

Date: 3-19-19
Roll Call Vote #: 1

2019 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1241

Senate Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar

Other Actions: Reconsider _____

Motion Made By Unruh Seconded By Dotzenrod

Senators	Yes	No	Senators	Yes	No
Chairman Cook	✓		Senator Dotzenrod	✓	
Vice Chairman Kannianen	✓				
Senator Meyer		✓			
Senator Patten	✓				
Senator Unruh	✓				

Total (Yes) 5 No 1

Absent 0

Floor Assignment Patten

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1241: Finance and Taxation Committee (Sen. Cook, Chairman) recommends **DO NOT PASS** (5 YEAS, 1 NAYS, 0 ABSENT AND NOT VOTING). HB 1241 was placed on the Fourteenth order on the calendar.

2019 TESTIMONY

HB 1241



North Dakota Association of REALTORS®

#1
HB 1241
1-16-19
p.1

To advocate for the success of our members in partnership with our local Associations and the National Association of REALTORS®

**TESTIMONY IN FAVOR OF HB 1241
HOUSE FINANCE AND TAX COMMITTEE**

Chairman Headland and Members of the House Finance and Tax Committee, for the record, my name is Greg Larson and I am here on behalf of the North Dakota Association of REALTORS® having served as a Past President.

The North Dakota Association of REALTORS® is a 501 (c)6 non-profit professional business organization with more than 1,900 REALTOR® members and more than 200 (218) Business Partner members, such as employees of financial and title companies, etc. Our state membership represents 80% of the approximately 2,350 license holders in ND, some of which are out-of-state or reciprocal licenses. The North Dakota Real Estate Commission is the professional licensing board for real estate licensees in North Dakota.

We believe the bill will help North Dakota's economy. It will also help our citizens achieve the American dream of home ownership.

Points to consider:

*Financial incentives in form of income tax relief for the establishment of a savings account to be used for a first-time home purchase in North Dakota

*The first time home savings account is established for beneficiary, such as a child, grandchild or even the prospective home buyer themselves

*North Dakota income tax deduction is available every year for investment made in the account

*Limited up to \$2000 for an individual and \$4,000 for a married couple

*Savings are allowed to grow tax free without penalty, so long as the funds are used to purchase a first time home in North Dakota

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#1
HB 1241
1-16-19
p. 2

*For young college graduates this should be beneficial as down payment requirements and student loan debt continues to rise and it's very difficult for them to start saving for a home purchase when faced with student loans, car payments, rent.....

*Promotes smart savings

*May help retain college graduates in North Dakota

*Limited to exemption of a maximum of \$20,000 or \$40,000 if a joint return is filed, over any combination of taxable years

I would be happy to answer any questions you may have but I believe there are a number of others here to testify.

I would like to see a Do Pass on HB 1241.

#1
HB 1241
1-16-19
p.3



First-Time Home Buyer Savings Accounts

The National Association of REALTORS® supports Home Buyer Savings Accounts established at the state level and urges states to adopt such plans. NAR believes individuals or families saving for homeownership should be able to put a percentage of income or maximum amount of funds into an account that is tax free to be used within a specified amount of time for the purchase of a home. Home Buyer Savings Accounts are typically used for first time homeowners or returning home buyers.

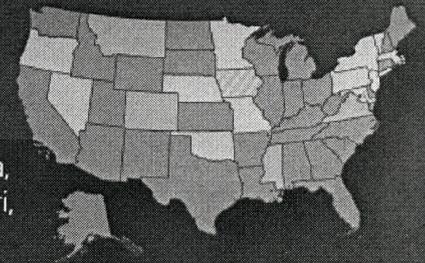

8 in 10

Eight in 10 non-homeowners reported that homeownership is part of their American Dream but cited the main reason why they do not currently own is that they cannot afford to buy a home.*

5
13

Iowa, Mississippi, Montana, Virginia and Colorado have signed First time Home Buyer Savings Accounts into law with the help of their state REALTOR® Association.

At least eight states (Connecticut, Hawaii, Iowa, Maryland, Massachusetts, Minnesota, Missouri, Nebraska, New Jersey, New York, Oklahoma, Oregon, and Pennsylvania) have introduced new legislation on First-Time Home Buyer Savings Accounts in 2017.

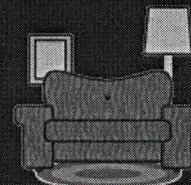


Economic Benefits of First-time Home Buyer Savings Accounts



New Housing Construction

Of the thousands of potential new first-time home buyer households, many are expected to purchase newly constructed housing units. This is expected to generate more than \$61 M in construction-related economic activity in Oregon and more than \$52M in Iowa.



New Household Spending

Transitioning from renter to homeowner brings a marginal increase in consumer spending for goods and services. This is estimated to be more than \$19 million in economic activity in Mississippi.

www.realtoractioncenter.com

*According to NAR's February 2017 Aspiring Home Buyers Profile

#1
HB 1241
1-16-19
p.4

THE ECONOMIC IMPACT OF A TYPICAL HOME SALE

in North Dakota

The real estate industry accounted for \$9,763 million or 18.6% of the gross state product in 2017.

TOTAL ECONOMIC IMPACT

\$70,661

Income generated from
real estate industries

Expenditures related
to home purchase

Multiplier of housing
related expenditures

New home construction



+



+



+



Real Estate Industries: We assume that commissions, fees and moving expenses, or income to real estate industries, associated directly with the purchase are about 9% of the median home price.

Expenditures related to home purchase: Furniture and remodeling expenses are about \$4,142 based on the NAHB figure.

<http://www.nahbclassic.org/generic.aspx?sectionID=734&genericContentID=257993&channelID=311&ga=2.174727074.1093549992.1499375907-912917446.1499375907>

Multiplier effect: The multiplier effect accounts for the fact that income earned in other sectors of the economy as a result of a home sale is then re-circulated into the economy.

New construction: Additional home sales induce added home production. Typically, one new home is constructed for every six existing home sales. Thus, for every existing homes sale, 1/6 of a new home's value is added to the economy.

Sources: BEA, U.S. Census, NAHB, Macroeconomic Advisors, NAR



#2
HB 1241
1-16-19

Heather Nord
1730 Marian Drive
Bismarck, ND 58501
701-360-0506
h.nord84@gmail.com

Dear Representatives Louser, Blum, Kading & Owens & Senators Larson & Meyer,

My name is Heather Nord. I am writing this in behalf of House Bill No. 1241. I am a single person living in the Bismarck, ND area. I am currently employed in the Bismarck area for an Oil & Gas company. I previously worked for an Abstract and Title Company in Grand Forks, ND.

While employed in Grand Forks, ND for Grand Forks Abstract and title I was hoping to save up some money to buy a home. However, modest wages combined with large student loan debt left it hard for me to save enough money for closing costs and the down payment needed. At that time, I paid in so much in income taxes as an unmarried woman with no dependents that it would have been hard for me to save too much. Also, at that time I paid almost as much in rent as I would have for a \$150,000 mortgage! I most definitely would have been able to afford to put away a small amount of some tax free money into an account every month or year that would have prepared me better for home buying. I, personally was not quite prepared with the amount you would need to come up with in order to even get a first time home buyers loan.

I, personally think that House Bill No. 1241 would help keep younger and first time home buyers in North Dakota. Making it easier for them to make roots in our state. Programs such as this bill would help generations be able to invest in themselves, such as building equity in a home instead of paying massive amounts of rent every year that will earn you nothing in return. I would think this would make it easier for them to be more financially sound and also making home buying not such an impossible process if you live on a modest income.

I thank you for your consideration in this bill as well as taking my statement today.

Best Regards,
Heather Nord



#3
HB 1241
1-16-19

Testimony in Support of House Bill 1241

Chairman Headland and members of the Committee, for the record, my name is Judy Maslowski, and I have been a licensed Realtor for almost 12 years. I was a Director on the Bismarck Mandan Board of Realtors for 3 years and a Director on the ND State Board of Realtors 3 years. Prior to being a Realtor, I was a Nursing Professor for almost 30 years. I am here to testify in support of HB 1241.

I have had the privilege of working with many first-time homebuyers. They are some of my favorite buyers to work with as their enthusiasm and excitement are contagious. I have been honored to have received the Champion of Affordable Housing award from the ND Housing Finance Agency on two occasions. This award is given to a Realtor who has assisted first-time homebuyers obtain affordable housing and financing options so they may realize the American dream of home ownership. I have worked very closely with Community Works ND and the Lewis and Clark Development Group with the same goal of finding affordable financing options. I have often seen the struggle and disappointment when buyers are told that they can't qualify for a loan; sadly often it is the debt to income ratios and student loan payments that create the inability to afford a home.

Many young people are finding it very difficult to qualify for financing and even more difficult, save money for the required down payment to buy a home. With college student loan debt alone it is difficult, but add daycare costs, daily cost of living expenses and it is often difficult to impossible for them to save up for the down payment. Home prices have increased on average approximately 60% over the last decade. Coming up with a 3.5-5 % down payment plus closing costs which can amount to \$5,000 to 8,000, buyers often have to bring well over \$10,000 to closing, which can be daunting for many.

HB 1241 which would allow pre-taxed savings plans is a good incentive for saving the needed funds. I strongly recommend a "Do Pass" of House Bill 1241. Thank you for your consideration.

Judy Maslowski
Bianco Realty
701-224-1100
701-400-7516



North Dakota Association of REALTORS®

3/11 HB 1241 # 1 pg. 1

To advocate for the success of our members in partnership with our local Associations and the National Association of REALTORS®

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3/11 HB 1241 # 1 pg. 2

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Millennials Take Extreme Measures to Afford a Home

July 2, 2018

Young adults express such a strong desire to own a home that they are willing to take on extra work or make another major sacrifice in order to afford one. Thirty-six percent of millennial home buyers say they've taken a second job to save for a down payment, according to a new *Redfin* survey of about 500 respondents between the ages of 24 and 38 who plan to buy their first home in the coming year.

The top concern among these first-time home buyers is having enough money for a down payment; 50 percent cited it as their number one barrier to homeownership, followed by affording a home in their preferred location (45 percent) and rising home prices (41 percent). Millennials are finding other ways to save for a down payment aside from working multiple jobs. Thirteen percent say they have taken early distributions from their retirement funds, 24 percent say they received a cash gift from family members, and 12 percent say they've added inheritance money to their savings.



Ten percent of millennials say they've even sold cryptocurrency to make more money to apply toward a home purchase, according to the survey. Millennial households earning more than \$100,000 were three times more likely to have sold cryptocurrency than those earning less. "For millennials who have launched their careers while working to pay off student loans in the last decade, having enough to set aside toward a down payment would have been a significant accomplishment," says *Redfin* Senior Economist Sheharyar Bokhari. "These results reveal some of the inequalities that have been exacerbated in the years following the recession, with those with higher incomes having more flexibility and, thereby, ability to become homeowners and build more wealth through advantages like financial support from family and the opportunity to invest in the stock market."

The survey revealed that millennials plan to take some of the following actions to build financial stability in order to buy their first home.

- 32 percent plan to pursue additional employment.
- 19 percent intend to rent out a room to someone they know.
- 15 percent say they will drive for a ride-sharing service.
- 14 percent plan to split ownership of a home with friends or roommates.



Source:

"*Redfin Survey: 35% of Millennial Homebuyers Took a Second Job to Save for Down Payment; 10% Sold Cryptocurrency*," *Redfin* (June 28, 2018)



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3/11 #18 1241 #3 pg. 1

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