

# Interest on Contributions to a First-Time Homebuyer Account

## Tax Expenditure Initial Review – TEB 1.81

### Tax Expenditure Facts

Year Enacted	2017
Statute	Minn. Stat. § 290.0132 subd. 25; 462D.01-.06
Tax Type	Individual Income Tax
Provision Type	Minnesota Subtraction
Latest Fiscal Impact Estimate	Less than \$50,000 – Fiscal Year 2024
Latest Claims Estimate	Fewer than 60 returns – Tax Year 2020
Expiration Date	None

*Estimated fiscal impact is less than \$50,000 per year through Fiscal Year 2025*

### Tax Expenditure Description

A subtraction from federal adjusted gross income is allowed for interest on contributions to a first-time homebuyer account. The beneficiary of the account must be a Minnesota resident. The account may be used to pay eligible costs related to the purchase of a home, including down payments, eligible closing costs, and the cost of constructing or financing construction of a single-family residence.

A maximum of \$14,000 for individuals and \$28,000 for married joint filers may be contributed to the account each year. The total lifetime contribution limit is \$50,000 for individuals and \$100,000 for married joint filers. The maximum amount allowed in an account is \$150,000.

### Additional Background Information

Information regarding accounts opened with financial institutions are reported to the Commissioner of Revenue in the form and manner required by the commissioner. Financial institutions include banks and credit unions. The holder of the account must designate a first-time home buyer as the qualified beneficiary. The account holder may be the qualified beneficiary, though does not need to be.<sup>1</sup>

This subtraction is administered by the Department of Revenue, and it reduces the amount of income tax revenue that would otherwise be generated. State income tax collections are deposited in the state General Fund, as directed by Minnesota Statutes, section 290.62.

### Proposed Tax Expenditure Objective for Consideration

The objective of the interest on contributions to a first-time homebuyer account subtraction is to support and encourage first-time home buyers to save for the purchase of a home.

## Sources

The proposed objective for this subtraction was discussed by the bill author during a hearing in the House State Government Finance Committee on March 7, 2017.<sup>ii</sup>

## Potential Metrics and Performance Measures

An analysis of the program's participation based on the submission of the Schedule M1HOME form to the Department of Revenue may identify trends in utilization of the tax incentive.

The Schedule M1HOME form is required to file for the subtraction and records contributions and withdrawals to designated First-Time Homebuyer Savings accounts.<sup>iii</sup> An analysis of these transactions may show the usage and efficacy of this program, and whether it incentivizes this type of saving.

A review of home purchases in Minnesota before and since the program's inception may depict a change in the number of first-time homebuyer purchases in the state. A comparison with direct spending programs may provide indications to program efficiency.

## Contact Information and Disclaimer

This tax expenditure review was prepared by the Legislative Budget Office for the Tax Expenditure Review Commission pursuant to Minnesota Statutes 2023, section 3.8855, subdivision 4.

Notice: Proposed tax expenditure objective statements are not binding authority and should not be used as a legal interpretation of any tax expenditure statute.

For questions regarding this review, please contact the Legislative Budget Office at 651-297-7146 or [lbo@lbo.mn.gov](mailto:lbo@lbo.mn.gov).

For more information, please visit the [Tax Expenditure Review Commission website](#).

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<sup>i</sup> Laws of Minnesota 2022, chapter 462D, section 462D.02-03.

<sup>ii</sup> Minn. H., Hearing on H.F. 1234 before the H. Comm. on State Government Finance. 90<sup>th</sup> Minn., Leg., Reg. Sess. (March 7, 2017.) <https://www.house.mn.gov/Committees/minutes/90021/56940>.

<sup>iii</sup> Minnesota Department of Revenue. (2022, December). Schedule M1HOME, First-Time Homebuyer Savings Account. [www.revenue.state.mn.us/sites/default/files/2022-12/m1home\\_22.pdf](http://www.revenue.state.mn.us/sites/default/files/2022-12/m1home_22.pdf).