

Senate Ways and Means Committee

Sonja Caldwell 271-2117

SB 301-FN, temporarily reducing the real estate transfer tax for first-time home buyers.

Hearing Date: January 24, 2018

Time Opened: 11:20 a.m.

Time Closed: 11:58 a.m.

Members of the Committee Present: Senators Sanborn, Giuda, Daniels, D'Allesandro and Feltes

Members of the Committee Absent : None

Bill Analysis: This bill reduces the rate of the tax on the transfer of real property for first time home buyers for a 2-year period and requires the department of revenue administration to report on the usage of the reduced rate.

Sponsors:

Sen. Bradley
Sen. French
Sen. Gray
Sen. Lasky
Rep. Hinch
Rep. Butler

Sen. Avarad
Sen. Fuller Clark
Sen. Hennessey
Sen. Morse
Rep. Shurtleff

Sen. Carson
Sen. Gannon
Sen. Innis
Sen. Watters
Rep. Abrami

Who supports the bill: Governor Christopher T. Sununu, Sen. Carson, Sen. Lasky, Sen. Gannon, Savid Collins (NH Cooperative Credit Union Assoc.), Sen. Fuller Clark, Sen. Watters, Ari Pollack (Homebuilders Assoc.), Mary Truell (NH Realtors), Ben Frost (NH Housing), Sen. Morse, Sen. Avarad

Who opposes the bill: No one

Who is neutral on the bill: Carollynn Ward (NHDRA)

Summary of testimony presented:

Sen. Bradley

- He sponsored this legislation at the request of Governor Sununu.
- It would reduce the real estate transfer tax (RETT) on the buyers' side for a first-time home buyer from 75 cents to 50 cents per \$100 for a period of two years.
- The impetus is to encourage workforce development, home ownership, and younger people to buy homes and stay in NH.

- This is not a major change but it will help that process and make home ownership more affordable.
- It is designed as a two year tax pilot program.
- Section 8 of the bill contains a reporting requirement to ensure we can track the success of the program.
- If we see an uptick in sales, it might not result in a significant loss of revenue.

Sen. Sanborn asked if anyone currently keeps track of first-time home sales.

Sen. Bradley said he doesn't believe we do because there's no form or box to check that he's aware of.

Sen. Sanborn asked about the amount of the rate reduction and whether he thought it should be a greater reduction.

Sen. Bradley stated that the RETT is an important component of our state's revenue picture, however if the committee wanted something greater he'd be amenable to that discussion. The bill is designed to be temporary in order to ascertain its efficacy.

Sen. D'Allesandro asked if there are new homes that are attractive to young people.

Sen. Bradley acknowledged that NH does have an affordable housing shortage.

Sen. D'Allesandro noted that the RETT is imposed on the buyer and the seller and the counties receive a portion of the tax collected. He asked how that distribution would be effected by this bill and if there will be significant push-back.

Sen. Bradley said the applicability date may need to be changed to alleviate the administrative burden of DRA needing to issue refunds.

Sen. Giuda asked how you know a person is a first-time home buyer.

Sen. Bradley pointed to a definition on line 16 of the bill and said they would have to certify that they were a first-time home buyer.

Sen. Giuda asked if there was any constitutional concern about taxing the same population of home buyers differently.

Sen. Bradley responded that no one has told him that's a problem.

Sen. Giuda said the issue is that NH doesn't have housing. He stated that this bill is a nice political ploy and that the costs addressed with this bill are rolled into one's mortgage anyway. He believes we need more housing to bring prices down and that this bill is a gimmick.

Sen. Bradley noted that there was an affordable housing appropriation in the capital budget, though he wished it could have been greater. This bill addresses a symptom but he doesn't think that makes it invalid. The root cause is another discussion.

Mary Truell – (broker from Meredith; Chair of NH realtors public policy committee)

- The NH Realtors support the bill because it will help attract younger people to the state.
- The median age of a first-time home buyer in NH is 31 years old.
- This bill can have a positive impact on the NH economy by creating more home owners.
- NH has the highest RETT in the country and is more than 3 times the rate in MA or ME.
- In 2017, the median purchase price was \$222,000 for first-time buyers. Under this bill, a first-time buyer would have saved \$525.
- They would like the tax break to be higher but support the bill as written.
- Nothing says the RETT has to be split equally between the buyer and seller. The law just says the tax is 1.5%.
- First-time home buyers typically finance 95% of the cost of the home. Second-time home buyers finance 86%. 35% of NH home purchases are first-time home buyers. When the

federal tax credit program happened a number of years ago that number jumped to 50%.

Sen. Sanborn asked how they know if someone is truly a first-time home buyer.

Ms. Truell said it's a question on a survey they provide to their clients.

Sen. Giuda asked if this pertains to first-time home buyers in NH or nationally.

Ms. Truell responded that it applies to first-time home buyers in NH.

Sen. Giuda asked if there is any way to verify one's status as a first-time home buyer.

Ms. Truell said the definition that NH realtors use is having never bought a house before, however the IRS says that if you haven't bought a house in 3 years, you are considered a first-time home buyer. She added that that's not the intent of this bill.

Senator D'Allesandro inquired about what inventory looks like right now.

Ms. Truell responded that there are different segments. Affordable housing is not there. There is inventory but they are experiencing record sales right now and homes are selling fast.

Ari Pollack – Homebuilders Assoc.

- The Homebuilders Assoc. support the bill.
- This is an incentive to homeownership and a small but helpful gesture.
- This is similar to the federal first-time home buyer credit which is ending as a result of the federal tax reform bill. That program was very successful as a way to incent first time home buyers to the marketplace.
- It's a difficult statistic to narrow in on with regard to whether or not the tax break should be lower or higher.
- He thinks it's a meaningful discount. It equates to a 33% discount.

Sen. Giuda said most mortgages include the cost of the transaction and that this is negligible.

Mr. Pollack agreed that it is a small gesture; it would be a \$500 savings on a \$200,000 house. He said that sometimes perception is reality and this is part of a tool box of things we should consider.

Ms. Truell, responding to a previous question, said that 22,000 houses sold in NH last year

Carolynn Ward (DRA)

- The January 1, 2018 applicability date in the bill would result in the DRA having to issue refunds, which would be a task. Additionally, she raised concerns about whether people who bought houses during the first 6 months of the bill being effective would know they were entitled to such a refund.
- Most of their forms are self-calculating with regard to the RETT so this bill would require programming changes.
- They would prefer an October 1, 2018 applicability date.
- RETT is a monthly administered tax.
- The counties retain a 4% commission of all the RETT they collect. Any reduction in RETT paid would reduce revenue to the counties in addition to the state.

Sen. Feltes asked about the statistics relative to first-time home buyers and home costs that had been cited by previous speakers.

Ms. Ward said the DRA has no basis of data to verify those numbers.

Ben Frost – NH Housing Finance Authority

- They support the bill and estimate a savings to borrowers of \$500, which may not seem like a lot but it does make a difference to first-time home buyers as they are often cash-strapped.
- The payment of the RETT varies. The NHHFA requires it to be paid up front, not rolled into the mortgage.
- He would recommend making this bill permanent.

Sen. Feltes did some math and estimated the potential revenue loss at \$3 million using \$400 in average savings or \$4,273,500 in lost revenue if you use \$500 in average savings.

Mr. Frost agreed that was a safe estimate of lost revenue.

Sen. Feltes asked what he would suggest for an offset to this revenue loss for the committee to consider.

Mr. Frost stated that would be a policy question.

sc

Date Hearing Report completed: January 26, 2018