



Interest on Contributions to a First-Time Homebuyer Savings Account Evaluation Summary

Objective

The objective of the Interest on Contributions to a First-Time Homebuyer Savings Account is to support and encourage first-time homebuyers to save for the purchase of a home.

Background

Minnesota’s interest on contributions to a first-time homebuyer savings account is a subtraction from federal adjusted gross income that aims to help Minnesotans save for the first-time purchase of a home. From 2017 to 2023, a total of 209 unique returns claimed the subtraction for a total benefit amount of \$249,176. Individual taxpayers can contribute up to \$14,000 per year (\$28,000 for married joint filers) to the savings account. The maximum allowed in an account is \$150,000.

Summary Information

Year Enacted	2017
Statute	Minnesota Statutes, section 290.0132, subdivision 25; 462D.01-06
Tax Type	Individual Income Tax
Provision Type	Minnesota Subtraction
Latest Fiscal Impact Estimate	Less than \$50,000 – FY2026
Latest Claims Estimate	46 returns – TY 2024
Expiration Date	None

Key Findings

- The tax benefit provided by the subtraction is too small to incentivize Minnesotans to save for the first-time purchase of a home.
- From 2017 to 2024, on average, approximately 39 returns claimed the subtraction. The average benefit amount per claimant was \$552. Over the same period, the median home sales price was \$287,344, with a 20% down payment of \$57,469 or a 3% downpayment of \$8,610.
- From 2017 to 2024, the average loan origination amount was \$258,250.
- While the subtraction does support saving for the first-time purchase of a home, the benefits provided are not commensurate with the level of financial resources required to meaningfully reduce the financial barriers to homeownership such as downpayments.
- Additionally, with respect to the income distribution of beneficiaries, the top 30% of income earners represent 50% of claimants.



Potential Modifications

- Several U.S. states have allowed residents to subtract both their contributions and interest or only contributions up to a maximum amount.¹

Additional Considerations to Potential Modifications

- Though the LBO points to other states for potential modifications of the subtraction, the LBO is not aware of any studies that evaluate the effectiveness of those other structures of the subtraction.
- To the best of the LBO's knowledge, only Colorado conducted an evaluation of a similar subtraction. However, the Colorado subtraction is similar to Minnesota's (only interest can be deducted, not the contribution amount). Both the Minnesota and Colorado evaluations reach the same conclusion.
- Therefore, it is possible that making the subtraction more generous may further skew the distribution of beneficiaries.

Other Statutory Components of Review

- The Minnesota Department of Revenue Tax Research estimates the forgone revenue of the subtraction to be less than \$50,000 for FY2024-2027.
- According to the Minnesota Department of Revenue, if the subtraction were repealed, the change in the income tax rate would be negligible.
- The subtraction is not considered to be a significant tax expenditure as defined by DOR Tax Research and therefore excluded from the requirement of an incidence study as part of a tax expenditure evaluation per Minnesota Statute, section 3.8855.
- Overall, this is a relatively small tax expenditure.

Contact Information and Disclaimer

- This tax expenditure evaluation was prepared by the Legislative Budget Office for the Tax Expenditure Review Commission.
- For more information, please visit the [Tax Expenditure Review Commission website](#). For the complete report visit the [TERC report page](#).
- Contact the Legislative Budget Office at 651-297-7146 or lbo@lbo.mn.gov with questions.

¹ Alabama, Idaho, Iowa, Kansas, Maryland, Michigan, Mississippi, Missouri, Montana, Oklahoma, Oregon, Virginia.