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## **Home Buyer Credit Widely Used**

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### **Background**

The *Taxpayer Relief Act of 1997* provided federal taxpayers who have not recently owned a home in the District of Columbia a tax credit of up to \$5,000 of the amount of the purchase price of a principal residence in the District. The credit is available for home purchases from August 6, 1997 through December 31, 2000. The credit is not available for single individuals with incomes of more than \$90,000, or for married couples with incomes in excess of \$130,000. For singles, the credit is reduced by 25 cents for each dollar of income that exceeds \$70,000; for married couples the credit phase out begins at incomes over \$110,000. The credit is not refundable and is only creditable against federal tax liability. Under current law, a family of four with approximately \$25,000 of adjusted gross income does not have any federal tax liability and would not be able to claim the credit. The credit, however, can be carried forward to future years if the tax liability is not sufficient.

The first-time home buyer credit is designed to encourage middle class persons to buy residences in the District. Those buyers can be expected to come from both existing District residents and non-District residents attracted to the city. Non-District residents may have owned a home prior to the purchase in the District. The credit should increase the value of existing District homes and encourage the conversion of rental units to owner-occupied units. Because the \$5,000 credit represents a higher proportion of the purchase price of lower valued homes, it should provide the most incentive for middle-income families to buy inexpensive housing.

It is important to evaluate the results of the home buyer credit as soon as possible because the credit will expire in 2000 unless extended by federal law. Congress will be more likely to extend the law if information to evaluate its success is available. A successful experience with the credit in the District could also serve as a national model for other central cities that want to encourage similar results. The Internal Revenue Service will be able to provide detailed information about the use of the credit by incomes of purchasers, but the results for 1998, the first full year of the credit, are not expected to be available until sometime in 2000. The federal data will not provide information on price and types of units purchased and on how the credit may have influenced the decision to buy. To meet the need for early and more extensive data on the credit, the Research Center undertook a survey in late 1998.

### **Research Center Survey**

The Greater Washington Research Center assessed the results of the new home buyer credit by surveying purchasers of District homes during calendar year 1998. The survey asked whether the

purchaser expected to claim the new home credit on their federal tax return. Preliminary results from the survey answer some questions about its use and how it affected the behavior of home buyers. A subsequent full report will provide more detailed information about differences by geographical location and type of unit, and will attempt to answer the more complex questions, such as the effects of the credit on home prices and on increasing the owner occupied housing stock.

The Center purchased a listing of all residential property transfers in the District in 1998. Not all of these transfers were single family dwelling units. Some were residential garage sales and others were technical transfers, such as those clearing titles. For purposes of the survey, therefore, we assumed transfers of less than \$25,000 were not dwelling units. After removing those transfers, 5,416 residential units were purchased in the District for \$25,000 and above in 1998. Of these transfers, 442 were by the same buyers apparently for rental, rehabilitation, or other investment reasons. From the remaining 4,974, after excluding those duplicates, the Research Center conducted a mail survey of a random sample of 1,600 purchasers, or 32 percent of the purchases. Valid responses were received from 529 of those surveyed. The responses represent 10.6 percent of the purchasers.

The survey forms were mailed in late 1998 and early 1999. Included with the forms was a description of the credit. It is possible that the rate of use is slightly overstated because of two features of the survey. Some purchasers may have planned to take the credit at the time they completed the form and later found out they were not eligible. There may also have been some survey respondents that were not aware of the credit and the survey caused them to claim it. However, it seems likely that most purchasers were advised by their real estate agents about the credit at the time of purchase.

The 4,974 purchases in 1998 were about 5.6 percent of the estimated 88,500 dwelling units owned by their occupants in the District in 1996.

### **Survey Results**

We estimate that 3,495, or 70.1 percent of purchasers of residences in the District in 1998, claimed the new home buyer credit. The total value of the credits earned in 1998 was approximately \$14.9 million. The average credit per purchaser was less than \$5,000 because some purchasers claiming the credit had higher incomes that permitted only partial use of the credit. For purposes of the estimate, it was assumed that those purchasers of homes in excess of \$200,000 who claimed the credit averaged a \$2,500 benefit. The actual cost to the federal government in 1998 may be less than \$14.9 million because some of the purchasers claiming the credit had insufficient income tax liability to fully utilize the credit in 1998. Those taxpayers will carry the unused portion forward to future years.

About three-fifths (62 percent) of those claiming the home buyer credit had previous addresses in the District. One-fifth (18 percent) of the claimants had previous addresses outside the District but within the Washington metropolitan region, and the remaining one-fifth (19 percent) showed previous addresses outside the region. While all District purchasers claiming the credit were new home purchasers, one-third (33 percent) of nonresident claimants owned their home at their previous address.

A key issue is whether the existence of the credit changed the behavior of purchasers. Several questions were included in the survey that shed light on the behavior of those claiming the credit.

When asked whether the credit had caused them “to buy at this time,” 51 percent answered yes. Asked whether the credit caused them to buy in the District instead of the suburbs, 43 percent answered yes. Half of those indicating the credit caused them to buy in the District came from outside of the District. In addition, a number of respondents to both questions noted that it was a factor in their decision, but not the principal reason.

The percent of purchasers claiming the credit varied by the value of the dwelling. Purchasers of units priced from \$100,000 to \$150,000 claimed the credit the most (87 percent). Purchasers of units priced from \$150,000 to \$200,000 were the next biggest users, at 81 percent. A lower 79 percent of purchasers of units between \$25,000 and \$100,000 who claimed the credit may reflect a lack of federal tax liability against which to claim it. As expected because of the limit on incomes of purchasers, only 51 percent of purchasers of units more than \$200,000 claimed the credit.

### **Conclusions**

The credit was very successful when measured by the number of purchasers using it. Although behavioral responses are hard to judge, it appears that the credit did influence decisions to buy and to buy in the District instead of the suburbs. The home buyer credit appealed most to purchasers of moderately priced homes, but it also influenced purchases of higher priced homes.

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# Homebuyer Survey

## Homes Purchased for \$25,000 and up

Homes purchased (not including duplicates)	4,974
Duplicate home buyers	442
<i>Total Homes</i>	5,416

## Surveys

Responses received	529
No response received	960
Returned mail	111
<i>Total Surveys Mailed</i>	1,600

## Results

Number of purchasers claiming the credit	3,488
Percent of purchasers claiming the credit	70.1%
Total estimated value of credits claimed	\$14.9 million
Credit caused purchaser to buy at this time	50.9%
Credit caused purchaser to buy in the District	42.6

### Of those claiming the credit, their previous address was:

in the District	61.5%
in the suburbs	18.3
out of the metro area	19.4

### \$25,000 - \$100,000 Sale Price Bracket

Percent of all homes purchased	24.2%
Percent claiming the credit	79.3

### \$100,000 - \$150,000 Sale Price Bracket

Percent of all homes purchased	23.3%
Percent claiming the credit	87.1

### \$150,000 - \$200,000 Sale Price Bracket

Percent of all homes purchased	14.4%
Percent claiming the credit	81.4

### Over \$200,000 Sale Price Bracket

Percent of all homes purchased	38.2%
Percent claiming the credit	50.7