
A BILL FOR AN ACT

RELATING TO AFFORDABLE RENTAL HOUSING DEVELOPMENT.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature find that there is a critical
2 shortage of affordable rental housing in Hawaii's overpriced
3 real estate market. The legislature further finds that
4 developers of rental housing need financial incentives to
5 construct rental projects.

6 The purpose of this Act is to provide financial incentives
7 and loans to developers to construct rental housing projects.

8 SECTION 2. Chapter 235, Hawaii Revised Statutes, is
9 amended by adding a new section to be appropriately designated
10 and to read as follows:

11 **"§235- Deduction for costs of rental housing**
12 **development.** (a) There shall be allowed a deduction from gross
13 income for the taxes imposed under this chapter upon a developer
14 of rental housing of _____ percent of the costs of
15 development of an affordable rental housing project. The
16 deduction shall be taken in equal increments over a three year
17 period.



1 (b) If the developer or the developer's successor fails to
2 keep all of the units as affordable rental housing during the
3 ten year period, within three months of that date the developer
4 shall lose entitlement to the deduction and shall recalculate
5 the developer's tax for the years in which the developer took
6 the deduction as though the deduction had not been taken, and
7 shall pay the State the amount of back taxes owed plus any
8 applicable penalties.

9 (c) The director of taxation shall adopt rules pursuant to
10 chapter 91 for purposes of this section.

11 (d) For the purposes of this section:

12 "Affordable rental housing" means units rented at or below
13 seventy-five percent of the fair market rental price for the
14 same or similar units for a period of no less than ten years.

15 "Developer" has the same meaning as in section 46-141."

16 SECTION 3. Chapter 237, Hawaii Revised Statutes, is
17 amended by adding a new section to be appropriately designated
18 and to read as follows:

19 **"§237- Imposition of tax on developer of rental housing.**

20 (a) The taxes imposed under this chapter upon a developer, as
21 defined in section 46-141, of rental housing shall not exceed
22 the taxes imposed under this chapter immediately prior to the

1 development of a rental housing project for a period of
2 years, if the developer leases or rents the units at
3 below market rates for ten years.

4 (b) If the developer or the developer's successor fails to
5 keep all of the units as affordable rental housing during the
6 ten year period, within three months of that date the developer
7 shall so inform the county director of finance, and the director
8 shall recalculate the developer's tax for the years in which the
9 developer took the deduction as though the deduction had not
10 been taken. The developer shall pay the county the amount of
11 back taxes owed plus any applicable penalties.

12 (c) The counties shall adopt rules pursuant to chapter 91
13 for purposes of this section.

14 (d) For the purposes of this section:
15 "Affordable rental housing" means units rented at or below
16 seventy-five percent of the fair market rental price for the
17 same or similar units for a period of no less than ten years.

18 "Developer" has the same meaning as in section 46-141."

19 SECTION 4. Chapter 346, Hawaii Revised Statutes, is
20 amended by adding a new section to be appropriately designated
21 and to read as follows:

1 "§246- Suspension of imposition of real property tax on
2 developers of rental housing. (a) The taxes imposed under this
3 chapter upon a developer, as defined in section 46-141, of
4 rental housing shall not exceed the taxes imposed under this
5 chapter in the taxable year immediately prior to the development
6 of a rental housing project, for a period of three years, if the
7 developer leases or rents the units at below market rates for a
8 ten year period.

9 (b) If the developer or the developer's successor fails to
10 keep all of the units as affordable rental housing during the
11 ten year period, the county may penalize the developer by
12 imposing tax in an amount not to exceed the amount of taxes
13 foregone plus ten percent.

14 (c) Each county shall adopt rules pursuant to chapter 91
15 for purposes of this section."

16 SECTION 5. Section 201G-432, Hawaii Revised Statutes, is
17 amended by amending subsection (e) to read as follows:

18 "(e) Moneys in the fund shall be used for the purpose of
19 providing in whole or in part loans or grants for housing
20 projects wherein:

- 1 (1) At least fifty per cent of the available units are for
- 2 persons and families with incomes at or below sixty
- 3 per cent of the median family income;
- 4 (2) At least ten per cent of the available units are for
- 5 persons and families with incomes at or below thirty
- 6 per cent of the median income; and
- 7 (3) The remaining units are for persons and families with
- 8 incomes at or below one hundred forty per cent of the
- 9 median family income; provided that the corporation
- 10 may establish rules to ensure full occupancy of fund
- 11 projects."

12 SECTION 6. New statutory material is underscored.

13 SECTION 7. This Act shall take effect upon its approval;
14 provided that section 2 shall apply to taxable years beginning
15 after December 31, 2006; and provided further that sections 3
16 and 4 shall take effect on July 1, 2006.

17 INTRODUCED BY:

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Report Title:

Rental Housing Development

Description:

Provides financial incentives to developers to construct rental housing by freezing real property taxes and excise taxes at the level prior to the development, allowing a tax deduction to the developer for the costs of development, and increasing the threshold for loans or grants from the rental housing trust fund for affordable rental housing development to 140 per cent of the median family income.

