# SB 2578

**LINDA LINGLE**
GOVERNOR

**JAMES R. AIONA, JR.**
LT. GOVERNOR

**KURT KAWAFUCHI**
DIRECTOR OF TAXATION

**STANLEY SHIRAKI**
DEPUTY DIRECTOR

STATE OF HAWAII
**DEPARTMENT OF TAXATION**
P.O. BOX 259
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510
FAX NO: (808) 587-1560

# SENATE COMMITTEE ON WAYS & MEANS
# TESTIMONY REGARDING SB 2578
# RELATING TO TAXATION

**TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)**
**DATE: FEBRUARY 24, 2010**
**TIME: 10AM**
**ROOM: 211**

---

This measure establishes a refundable ohana residential housing income tax credit for qualified taxpayers who purchase a qualified principal residence on or after April 1, 2010, and before January 1, 2012. The credit is equal to 2% of the purchase price up to a maximum of $6,000 and is payable in two equal installments in the two taxable years following the purchase.

The Department of Taxation (Department) **opposes** this measure because it is **outside the budget priorities this legislative session**.

Notwithstanding the merit of this measure, the Department cannot support the tax impacts in this measure because these tax breaks are not factored into the budget. The Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either. Given the forecasted decrease in revenue projections, this measure would add to the budget shortfall.

The Department simply cannot support this tax incentive given the other competing priorities for general fund revenues.

In addition, the Department has the following specific comments on this measure:

1. The stated credit is two percent of the purchase price of the residence, excluding land acquisition costs and escrow closing costs, up to a maximum credit of $6,000. Since land costs are not generally separately stated in a sales agreement, the Department envisions that taxpayers will attempt to limit the portion of the purchase price allocable to the land so as to maximize the amount of credit. The Department anticipates time consuming audits and litigation over the fair value of the land in any sales contract subject to the credit.

2. The measure provides for income limitations based on adjusted gross income. Although it

appears that the intent was to use federal adjusted gross income for measuring income qualification, the measure does not specifically so provide and the default would thereby be Hawaii adjusted gross income. It should be noted that social security benefits and many pension payments are not subject to Hawaii income tax and is therefore excluded from Hawaii adjusted gross income. The end result would be that some taxpayers may be eligible for the credit if Hawaii adjusted gross income is used but would not be if federal adjusted gross income were used.