SB 219

Measure Title:	RELATING TO THE MORTGAGE INTEREST DEDUCTION.
Report Title:	Income Tax; Mortgage Interest Deduction
Description:	Eliminates the mortgage interest deduction for second homes under Hawaii income tax law. Requires DOTAX to calculate the savings and transfer an equivalent amount of income taxes to the director of finance for deposit into the rental housing revolving fund.
Companion:	
Package:	None
Current Referral:	HOU, WAM
Introducer(s):	K. RHOADS, Shimabukuro, Taniguchi

DAVID Y. IGE
GOVERNOR

CRAIG K. HIRAI
EXECUTIVE DIRECTOR

STATE OF HAWAII
DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
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IN REPLY REFER TO:

Statement of
Craig K. Hirai
Hawaii Housing Finance and Development Corporation
Before the

SENATE COMMITTEE ON HOUSING
January 31, 2016 at 2:45 p.m.
State Capitol, Room 225

In consideration of
S.B. 219
RELATING TO THE MORTGAGE INTEREST DEDUCTION.

The HHFDC **offers the following comments** on S.B. 219. HHFDC defers to the Department of Taxation on the overall merits and feasibility of the amendments to the mortgage interest deduction proposed in this bill.

We support increased funding for the Rental Housing Revolving (RHRF) as long as they do not replace priorities requested in the Executive Budget. The Executive Budget does include a request of $50 million in General Obligation bond funding in Fiscal Year 2017-2018 for infusion into the RHRF, for which we respectfully request the Committee's support.

Thank you for the opportunity to testify.

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
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To: The Honorable Will Espero, Chair
and Members of the Senate Committee on Housing

Date: Tuesday, January 31, 2017
Time: 2:45 P.M.
Place: Conference Room 225, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.B. 219, Relating to the Mortgage-Interest Deduction

The Department of Taxation (Department) appreciates the intent of S.B. 219 and provides the following comments for your consideration.

S.B. 219 limits the mortgage interest deduction to interest attributable to primary residences only. The bill also requires the Department to measure the amount of tax revenue gained due to the limitation and requires that the amount to be deposited into the rental housing revolving fund. The measure applies to taxable years beginning after December 31, 2016.

First, the Department notes that the mortgage interest deduction is an itemized deduction. Section 68 of the Internal Revenue Code limits itemized deductions for taxpayers who exceed certain adjusted gross income (AGI) thresholds. The section 68 rules are operative for Hawaii income tax purposes. The section 68 reductions are equal to 80% of the otherwise allowable itemized deductions or 3% of the excess of the taxpayer's AGI over the threshold, whichever is smaller.

Due to the existing section 68 limits, the proposed limitation of the mortgage interest deduction may not return a revenue gain at all. This is because taxpayers with second homes are likely to exceed section 68's AGI thresholds, and thus, be subject to the itemized deductions limits already in place. For these taxpayers the proposed limitation may only reduce the already disallowed amount of itemized deductions.

Second, if there is a revenue gain, the Department has concerns about its ability to properly calculate the amount. Itemized deductions are not reported in enough detail to isolate the deduction for mortgage interest nor the amounts attributable to mortgage interest specific to the second home. To measure this accurately, the Department will need to require taxpayers to report the amounts of mortgage interest deductions on second homes, otherwise allowable, that this bill disallows. Given the complexity of the limitations discussed above, even this may not provide an accurate measure.

Lastly, if the Committee wishes to advance this measure, the Department requests that Section 3 of the bill allocating the amount gained to the rental housing special fund be amended to read as follows:

SECTION 3. [~~The department of taxation shall annually calculate the amount of state revenue gained in the previous taxable year by making non operative section 163(h)(4)(A)(i)(11) and section 163(h)(4)(A)(ii)(11) of the Internal Revenue Code and, following this calculation, by September 1, shall transmit an equivalent amount of income taxes to the director of finance for deposit~~] Revenue gain attributable to this Act shall be deposited into the rental housing revolving fund established by section 201H-202, Hawaii Revised Statutes.

Thank you for the opportunity to provide comments.

LEGISLATIVE TAX BILL SERVICE

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Eliminate Mortgage Interest Deduction for Second Homes

BILL NUMBER: SB 219

INTRODUCED BY: K. RHOADS, Shimabukuro, Taniguchi

BRIEF SUMMARY: Amends HRS section 235-2.4(h) to make the mortgage interest deduction for second homes (section 163(h)(4)(A)(i)(II) and section 163(h)(4)(A)(ii)(II), Internal Revenue Code) inoperable in Hawaii.

Requires the department of taxation to calculate the revenue from this provision annually and deposit that amount in the rental housing revolving fund (HRS section 201H-202).

EFFECTIVE DATE: Upon approval, applies to taxable years beginning after December 31, 2016.

STAFF COMMENTS: Under Hawaii's general conformity to the Internal Revenue Code, individuals may be allowed an itemized deduction for "qualified residence interest," which is interest on debt incurred to buy a qualified residence (acquisition indebtedness) or is otherwise secured by the qualified residence (home equity indebtedness). A qualified residence is defined as the principal residence of the taxpayer, or one other residence selected by the taxpayer that is used by the taxpayer as a residence. The bill works by decoupling from the "one other residence" provision in the Internal Revenue Code and from the similar provision that applies to married taxpayers filing separately.

The apparent intent of the bill is to raise taxes and earmark the money for the rental housing revolving fund.

As with any earmarking of revenues, the legislature will be preapproving each of the programs fed by the fund into which the tax monies are diverted, expenses from the funds largely avoid legislative scrutiny, and the effectiveness of the programs funded becomes harder to ascertain. It is also difficult to determine whether the fund has too little or too much revenue.

If the legislature deems the programs and purposes funded by this special fund to be a high priority, then it should maintain the accountability for these funds by appropriating the funds as it does with other programs. Earmarking revenues merely absolves elected officials from setting priorities. If the money were appropriated, lawmakers could then evaluate the real or actual needs of each program.

Digested 1/27/2017

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January 31, 2017

The Honorable Will Espero, Chair
Senate Committee on Housing
State Capitol, Room 225
Honolulu, Hawaii 96813

RE: S.B. 219, Relating to Mortgage Interest Deduction

HEARING: Tuesday, January 31, 2017, at 2:45 p.m.

Aloha Chair Espero, Vice Chair Harimoto, and Members of the Committee.

I am Myoung Oh, Director of Government Affairs, here to testify on behalf of the Hawai'i Association of REALTORS® ("HAR"), the voice of real estate in Hawai'i, and its 9,000 members. HAR **opposes** S.B. 219 which proposes to eliminate the Mortgage Interest Deduction (MID) for second homes under Hawai'i income tax law. This measure also transfers an equivalent amount to the Rental Housing Trust Fund.

The ability to take a Mortgage Interest Deduction (MID) on state and federal income taxes can make home ownership affordable, or at least offer a financial incentive toward homeownership. Introduced along with the Income Tax itself in 1913, the federal MID allows homeowners who itemize deductions on their taxes to deduct mortgage interest attributable to primary residence and second-home debt totaling $1 million, and interest paid on home equity debt up to $100,000.

The Mortgage Interest Deduction encourages the American Dream of homeownership and gives people great financial security through homeownership. The deduction helps middle-income purchasers make their mortgage payments more affordable and is vital to the health and stability of housing markets.

Furthermore, more homeowners today are purchasing a second home for their elderly parents or their adult children who cannot otherwise afford to pay for a home.

HAR believes that the MID for second homes is an important opportunity for individual to use to invest for retirement or to support their families with Hawaii's high cost of living and housing.

Mahalo for the opportunity to testify in opposition to this measure.

From:	CPH Testimony
Sent:	Monday, January 30, 2017 8:15 AM
To:	HOU Testimony
Subject:	FW: support of SB219

-----Original Message-----
From: Peggy Graybill [mailto:graybip@fastmail.com]
Sent: Monday, January 30, 2017 7:48 AM
To: CPH Testimony <CPHTestimony@capitol.hawaii.gov>
Subject: support of SB219

There is no question that a stable source of funding is needed to provide affordable housing for poor and middle class people in Hawaii.
Any way that it can be done by having the wealthy contribute more money to the effort will make it easier for those with less wealth to be able to live and work in Oahu.

Go faster alone, go farther together
Peggy Graybill