

HB 2332, HD 1

Measure Title:	RELATING TO THE LOW-INCOME HOUSING TAX CREDIT.
Report Title:	Low-income Housing Tax Credit
Description:	Specifies that certain provisions of the Internal Revenue Code related to at-risk rules and deductions and to passive activity loss do not apply with respect to claims for the state low-income housing tax credit. (HB2332 HD1)
Companion:	SB2759
Package:	Governor
Current Referral:	HOU, WAM
Introducer(s):	SAIKI (Introduced by request of another party)



EXECUTIVE CHAMBERS
HONOLULU

DAVID Y. IGE
GOVERNOR

Testimony of the Office of the Governor
State of Hawai'i

Before the
Senate Committee on Housing
March 13, 2018; 2:45 p.m.
Conference Room 225

In consideration of
House Bill No. 2332, H.D. 1
RELATING TO LOW-INCOME HOUSING TAX CREDIT

Chair Espero , Vice Chair Harimoto, and Committee members:

The Office of the Governor **strongly supports** House Bill 2332, H.D.1. Housing is a top priority for the Ige administration. Governor Ige convened a housing task force comprised of representatives from the Land Use Research Foundation, the Building Industry Association, the development community, housing advocacy organizations, and the state legislature to work collaboratively on solutions to the housing shortage.

Currently, only a handful of large corporations in this state comprise the investor pool resulting in limited demand and pricing of the housing tax credit. This measure supports the goals of the task force by expanding the pool of potential investors for State Low-Income Housing Tax Credits (LIHTC). It will help maximize the state's financing tools by repealing the application of the at-risk and passive activity loss rule, thereby allowing individuals and small corporations to also invest in State LIHTCs.

We urge you to pass this bill. Thank you for the opportunity to testify on this measure.

Denise Iseri-Matsubara
Office of the Governor
(808) 586-0805



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

DAVID Y. IGE
GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

MARY ALICE EVANS
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Statement of
LUIS P. SALAVERIA
Director
Department of Business, Economic Development and Tourism
before the
SENATE COMMITTEE ON HOUSING
Tuesday, March 13, 2018
2:45 p.m.
State Capitol, Conference Room 225

in consideration of
HB 2332, HD1
RELATING TO THE LOW-INCOME HOUSING TAX CREDIT.

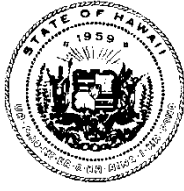
Chair Espero, Vice Chair Harimoto, and Members of the Committee.

The Department of Business, Economic Development and Tourism (DBEDT)

strongly supports HB2332, HD1, an Administration bill.

This bill proposes changes to the State Low-Income Housing Tax Credit (LIHTC) to increase the amount of equity generated by the sale of the LIHTC for affordable rental housing developments by expanding the pool of potential investors. DBEDT supports this bill because it will improve the State LIHTC as a financing tool for affordable rental housing for low-income families at or below 60 percent of the area median income.

Thank you for the opportunity to offer support on HB2332, HD1.



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

March 13, 2018 at 2:45 p.m.
State Capitol, Room 225

In consideration of
H.B. 2332, H.D. 1
RELATING TO THE LOW-INCOME HOUSING TAX CREDIT.

The HHFDC **strongly supports** H.B. 2332, H.D. 1 an Administration bill. This bill proposes changes to the State Low-Income Housing Tax Credit (LIHTC) to increase the amount of equity generated by the sale of the LIHTC for affordable rental housing developments.

Rental losses from debt-financed residential rental projects, including federal LIHTC projects, are subject to passive activity and at-risk limitations under the Internal Revenue Code. This results in the deferral of rental losses for many potential investors. Under federal law, the passive activity and at-risk limitations normally apply to investors who are individuals and closely-held corporations. As a result, a federal LIHTC investor is typically a large corporation or financial institution. The State LIHTC law currently follows these federal provisions.

By eliminating the applicability of the at-risk and passive activity loss limitations to State LIHTC investors, this bill expands the pool of Hawaii taxpayers that can invest in the State LIHTC to any Hawaii taxpayer with Hawaii income tax liability. To increase the production of LIHTC projects, the result will be an increase in the supply of federal and State LIHTC. A federal LIHTC can be sold nationally, but a State LIHTC can only be sold to investors who owe Hawaii taxes. If we do not increase the number of Hawaii taxpayers who can invest in State LIHTCs, there will be an oversupply which will lower the price the existing pool of Hawaii LIHTC investors are willing to pay for a State LIHTC. Any increased pricing for the State LIHTC under this bill will generate more equity that can be spent on affordable rental housing development.

Thank you for the opportunity to testify.

DAVID Y. IGE
GOVERNOR

DOUGLAS S. CHIN
LIEUTENANT GOVERNOR



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DIRECTOR

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**STATE OF HAWAII
DEPARTMENT OF TAXATION**

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

Date: Tuesday, March 13, 2018
Time: 2:45 P.M.
Place: Conference Room 225, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: H.B. 2332 H.D. 1, Relating to the Low Income Housing Tax Credit

The Department strongly supports H.B. 2332, H.D.1, an Administration measure, defers to the Hawaii Housing Finance and Development Corporation (HHFDC) on the merits of this bill, and provides the following comments for your consideration. A summary of the key provisions of H.B. 2332, H.D. 1, is as follows:

- Eliminates conformity to the following Internal Revenue Code (IRC) sections such that these provisions do not apply to investments in buildings and projects claiming the credit:
 - Sections 42(k) and 465 - relating to the at-risk rules; and
 - Section 469 - relating to the passive activity loss (PAL) limitations;
 - Section 704 – relating to a partner’s distributive share;
- Has a defective effective date of January 1, 2050 but otherwise applies to qualified low-income buildings awarded credits after December 31, 2018; and
- Is repealed on December 31, 2021 by virtue of section 4 of Act 129, Session Laws of Hawaii 2016, which reenacts this section as it existed prior to the passage of Act 129, Session Laws of Hawaii 2016.

First, the Department appreciates adoption by the House Committee on Housing of the Department’s recommendation to add a provision to insure adherence to the requirement that the State tax credits allocated to the building do not exceed 50% of the total federal tax credits allocated to the building.

Second, the Department notes that it generally prefers conformity to the IRC where possible, as this provides clear guidance to both the Department and to taxpayers, since there is substantial guidance issued in the form of rules and regulations issued by the Internal Revenue

Service (IRS), as well as court decisions regarding the various sections of the IRC. Conformity greatly minimizes the burden on the Department and taxpayers, thereby assisting compliance with Hawaii's tax law.

Finally, the Department is also able to implement the measure with its current effective date. Thank you for the opportunity to provide testimony in support of this measure.

Testimony by InState Partners

In Support of HB2332 HD1
Relating to the Low-Income Housing Tax Credit
Senate Committee on Housing
Tuesday, March 13, 2018, 2:45PM; CR225

The Honorable Will Espero, Chair and Committee Members:

My name is Rachel Stern, with InState Partners, testifying in support of HB2332 HD1 Relating to the Low-Income Housing Tax Credit.

The purpose of this bill is to build on the incentives provided under Act 129 (2016) by decoupling from the at-risk and passive activity loss limitations under federal income tax law. These federal tax limitations only permit large corporations to benefit from the credit, excluding most Hawaii individual and small businesses from participating. This bill therefore expands the investor pool to be more inclusive of the typical Hawaii investor.

InState Partners strongly supports this measure, and urges this committee to pass this measure out of committee. We also defer to the Hawaii Housing Finance and Development Corporation on the technical issues.

Thank you for this opportunity to testify.

HB-2332-HD-1

Submitted on: 3/12/2018 2:30:30 PM

Testimony for HOU on 3/13/2018 2:45:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Melodie Aduja	Testifying for OCC Legislative Priorities Committee, Democratic Party of Hawai'i	Support	No

Comments: