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GOVERNOR OF
HAWAII



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LAND
STATE PARKS

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES

POST OFFICE BOX 621
HONOLULU, HAWAII 96809

Testimony of
SUZANNE D. CASE
Chairperson

Before the House Committee on
HOUSING

Tuesday, February 6, 2018
9:30 AM
State Capitol, Conference Room 423

In consideration of
HOUSE BILL 2441
RELATING TO TAXATION

House Bill 2441 proposes to amend conveyance tax rates and the distribution of conveyance tax revenues to encourage home ownership among Hawaii residents. **The Department of Land and Natural Resources (Department) appreciates the intent of this bill and its benefit to first-time home owners and residents of Hawaii. The Department provides the following comments on the potential impact of this bill upon the Land Conservation Fund (LCF) and the protection of land having value as resource to the State.**

The Department is concerned that the proposed amendment of conveyance tax rates could result in decreases in annual conveyance tax revenues, and in corollary decreases in deposits of conveyance tax revenues to the LCF under Section 247-7(1), Hawai'i Revised Statutes. The Department's Legacy Land Conservation Program (LLCP) awards grants from the Land Conservation Fund to protect lands that hold important resources from damage and destruction through the acquisition of fee title and conservation easements by nonprofit land conservation organizations, counties, and state agencies.

The Department recognizes the inevitability of trade-offs between affordable housing and resource protection, and the challenges of formulating related policy. As part of the trade-off analysis, we note that in Act 156, Session Laws of Hawaii 2005, the Legislature found "that the preservation, protection, and enhancement of the State's land, coastal areas, and natural resources are of central importance for current and future residents and for the state economy," and "determined that there is a clear nexus between the source of the conveyance tax and providing funding for watershed protection and other natural resource preservation programs." By defending land and resources against development threats, the LLCP enables management that generates conservation benefits.

In addition to the public benefits afforded by land conservation, there are numerous community-specific benefits provided by properties protected under LLCP.

Thank you for the opportunity to comment on this measure.

DAVID Y. IGE
GOVERNOR

DOUGLAS S. CHIN
LIEUTENANT GOVERNOR



LINDA CHU TAKAYAMA
DIRECTOR

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

**STATE OF HAWAII
DEPARTMENT OF TAXATION**

830 PUNCHBOWL STREET, ROOM 221

HONOLULU, HAWAII 96813

<http://tax.hawaii.gov/>

Phone: (808) 587-1540 / Fax: (808) 587-1560

Email: Tax.Directors.Office@hawaii.gov

To: The Honorable Tom Brower, Chair
and Members of the House Committee on Housing

Date: Tuesday, February 6, 2018
Time: 9:30 A.M.
Place: Conference Room 423, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: H.B. 2441, Relating to Housing

The Department of Taxation (Department) offers the following comments on H.B. 2441 for the Committee's consideration.

H.B. 2441 lowers the conveyance tax rate for properties with a value less than \$2,000,000. The adjusted rates are as follows:

Value of Property	Proposed Rate	Current Rate
less than \$600,000	\$.05 per \$100	\$.10 per \$100
\$4,000,000 less than \$6,000,000	\$.10 per \$100	\$.20 per \$100
\$6,000,000 less than \$10,000,000	\$.15 per \$100	\$.30 per \$100

H.B. 2441 increases the conveyance tax for condominiums and single family residences for which the purchaser is ineligible for a county homeowner's exemption. The increase is to a flat rate of three percent of the value. The adjusted rates are as follows:

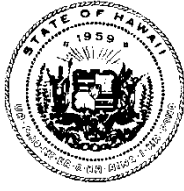
Value of Property	Proposed Rate	Current Rate
Less than \$600,000	3 per cent	\$.15 per \$100 (.15%)
\$600,000 less than \$1,000,000	3 per cent	\$.25 per \$100 (.25%)
\$1,000,000 less than \$2,000,000	3 per cent	\$.40 per \$100 (.4%)
\$2,000,000 less than \$4,000,000	3 per cent	\$.60 per \$100 (.60%)
\$4,000,000 less than \$6,000,000	3 per cent	\$.85 per \$100 (.85%)
\$6,000,000 less than \$10,000,000	3 per cent	\$1.10 per \$100 (1.1%)
\$10,000,000 or greater	3 per cent	\$1.25 per \$100 (1.25%)

Section 3 of H.B. 2441 allocates an unspecified percentage of conveyance tax revenues into the housing finance revolving fund.

The Department is able to administer the changes proposed by this bill, but requests the effective date of the tax rate changes made by Section 1 of the bill be changed to January 1, 2019 to allow the Department time to update the relevant forms and instructions.

Thank you for the opportunity to provide comments.

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
677 QUEEN STREET, SUITE 300
Honolulu, Hawaii 96813
FAX: (808) 587-0600

IN REPLY REFER TO:

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

HOUSE COMMITTEE ON HOUSING

February 6, 2018 at 9:30 a.m.
State Capitol, Room 423


In consideration of
H.B. 2441
RELATING TO HOUSING.


HHFDC **opposes** H.B. 2441 as currently drafted. H.B. 2441 increases the conveyance tax rate for properties that are not subject to the homeowner's exemption to 3 percent of the value. We note that HHFDC-assisted affordable housing projects would be subjected to this increased tax rate.


H.B. 2441 also would add an unspecified allocation of conveyance taxes for the Housing Finance Revolving Fund, which is administered by the HHFDC and which funds many of our financing programs. We appreciate the over-all concept of this provision as it supports our goals and objectives, but we are concerned about the cost implications generated by this proposal.

Thank you for the opportunity to testify.



 | 808-733-7060

 | 808-737-4977

 | 1259 A'ala Street, Suite 300
Honolulu, HI 96817

February 6, 2018

The Honorable Tom Brower, Chair

House Committee on Housing
State Capitol, Room 423
Honolulu, Hawaii 96813

RE: H.B. 2441, Relating to Housing

HEARING: Tuesday, February 6, 2018, at 9:30 a.m.

Aloha Chair Brower, Vice Chair Nakamura and Members of the Committees,

I am Ken Hiraki, 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 almost 9,500 members. HAR **strongly opposes** House Bill 2441, which amends the Conveyance Tax to 3% on all condominiums and single-family residences for which the purchaser is ineligible for a county homeowner's exemption on property tax. This measure also requires an unspecified percentage to be deposited into the Housing Finance Revolving Fund.

In 2005, the Conveyance Tax was increased on a tiered scale on 1) the sale of realty for all transfers or conveyance of realty or any interest (i.e. commercial, timeshare, agricultural, industrial, etc. and condominium or single-family residences for which the purchaser is eligible for a county homeowner's exemption); and 2) the sale of a condominium or single-family residence for which the purchaser is ineligible for a county homeowner's exemption.


In 2009, the Legislature once again increased the Conveyance Tax on 1) the sale of realty from 30 cents per \$100 (.30%) for properties over \$1,000,000 to a maximum of \$1.00 (1%) per \$100 for properties over \$10,000,000 -- an increase of over 333%, and 2) the sale of a property ineligible for a county homeowner exemption from 30 cents per \$100 to \$1.25 per \$100 (1.25%) -- an increase of over 416.66%.


HAR has serious concerns with the increase in 3% of the value of a sale of a condominium or single-family residence for which the purchaser is ineligible for a county homeowner's exemption on property tax. Under the proposed rate, on the conveyance of a \$300,000 condominium, it would be a \$9,000 conveyance tax. Under the current rate, the tax is \$450 (\$15 cents per \$100)—an increase of over 1,900%. HAR would also note that the conveyance tax is charged to the seller, while the Conveyance Tax rate is based on the buyer's eligibility for a county homeowner's exemption.





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 | 808-737-4977

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The Conveyance Tax applies to the conveyance of multi-family rentals, land for residential subdivisions, mixed-income and multi-use properties, commercial properties, resort properties, and agricultural lands, as well as condominium and single-family homes. It also applies when one conveys property between family members. It also applies whether or not a property is sold at a gain or a loss

The tax applies to the entire purchase price, and does not take into account the amount of indebtedness that may be on the property being sold, or whether the seller may be selling at less than what the seller originally acquired the property for. Thus, in certain circumstances the seller may not have the cash to be able to pay the Conveyance Tax, or the amount of tax may be so high relative to the net proceeds that the seller is receiving as to become confiscatory.

Furthermore, the problem linking special funding to the Conveyance tax is that when the real estate market is down, there are not enough funds to pay for the programs and special funds it covers. Then, the Conveyance Tax would need to be increased to cover the program. However, when the market is up, there are excess funds over and above the program's needs. This becomes a cyclical issue, and unreliable in forecasting these program's needs.

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