

# HB 2747, HD2

Measure Title:	RELATING TO HOMEOWNERSHIP.
Report Title:	Homeownership; Individual Housing Accounts; Deductions
Description:	Changes the annual contribution amount, aggregate contribution amount, and number of taxable months for individual housing accounts established after December 31, 2018; allows Community Development Financial Institutions to administer individual housing accounts established after December 31, 2018; and requires homebuyer education. (HB2747 HD2)
Companion:	
Package:	None
Current Referral:	HOU/HMS, WAM
Introducer(s):	BROWER, AQUINO, BELATTI, CULLEN, FUKUMOTO, GATES, ICHIYAMA, JOHANSON, KEOHOKALOLE, KOBAYASHI, LEARMONT, C. LEE, LOPRESTI, LOWEN, MIZUNO, MORIKAWA, NAKAMURA, NAKASHIMA, NISHIMOTO, OHNO, ONISHI, SAIKI, SAN BUENAVENTURA, TAKUMI, TODD, WOODSON, YAMANE, YAMASHITA

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

The Honorable Josh Green, Chair  
and Members of the Senate Committee on Human Services

Date: Monday, March 19, 2018  
Time: 2:45 P.M.  
Place: Conference Room 016, State Capitol

From: Linda Chu Takayama, Director  
Department of Taxation

Re: H.B. 2747, H.D. 2, Relating to Homeownership

The Department of Taxation (Department) offers the following comments on H.B. 2747, H.D. 2, for the Committee's consideration.

H.B. 2747, H.D. 2, has a defective effective date of January 1, 2050 and makes the following changes to individual housing accounts (IHAs):

- Establishes a separate set of rules for IHAs created after December 31, 2018;
- Leaves as unspecified the contribution limits, the deadline by which an IHA must distribute its entire interest, and the penalty for failure to file a report under the IHA law;
- Disallows any deduction for contributions to an IHA unless the taxpayer's household income is at or below 125% of the area median family income;
- Requires taxpayers to complete homebuyer education to deduction IHA contributions;
- Requires recapture of the amount of the distribution if the property is sold;
- Imposes a 10% penalty if the property is sold;
- Reduces the recapture amount by 10% for each full taxable year the individual occupies the property as a first principal residence;
- Limits the marriage disqualification to spouses with an interest in residential real property within three years of the marriage; and
- Allows community development financial institutions to act as trustees of IHAs established after December 31, 2018.

Generally, IHAs are savings vehicles that assist individuals in purchasing their first principal residence. Contributions to IHAs are deductible and distributions are taxed to the recipient. Contributions are limited by an annual limitation and by an aggregate limitation. This bill leaves the limits for the annual and aggregate contributions unspecified.

The Department notes that previous versions of this bill changed either the aggregate amount of contributions or the annual limitation, but not both. An increase to one limitation without a corresponding increase to the other limitation may not effectuate the purpose of the bill as described in the preamble. The Department recommends that if the legislature intends to significantly expand the incentive to saving and buying a first principal residence, then both the annual and aggregate limitations be adjusted.

Finally, the Department is able to administer the substantive provisions of this bill and defers to other agencies regarding the merits of individual housing accounts as savings tools. The Department notes the defective effective date of the bill, however, given that the rules changes only apply to IHAs established after December 31, 2018, the Department will be able to administer this bill as written if the defective date is removed.

Thank you for the opportunity to provide comments.



**LATE**

**HB2747 HD2**  
**RELATING TO HOMEOWNERSHIP**  
Senate Committee on Housing  
Senate Committee on Human Services

March 19, 2018

2:45 p.m.

Room 016

The Office of Hawaiian Affairs (OHA) **SUPPORTS** HB2747 HD2 with some suggestions for consideration, which is similar to HB1746, a bill included in OHA's 2018 Legislative Package. This measure promotes the economic self-sufficiency and housing security of Hawai'i's residents, including Native Hawaiians, by expanding the existing tax deductions to include savings in community development financial institution (CDFI)-administered individual development accounts for housing, otherwise known as individual housing accounts (IHAs); updating the annual amount allowed to be deducted; and updating the total aggregate amount allowed to be deducted for IHA accounts established after December 31, 2018.

CDFI-administered IHAs constitute a critical component of comprehensive, proven housing programs that have enabled individuals and families to purchase their first home, or to secure rental housing. IHAs generally provide incentives for account holders to meet savings goals, and require account funds to be expended for IHA purposes (i.e. to make downpayments on a home, or make a rental deposit and first month's rent). For example, IHA accounts held in a traditional banking institution are provided with a limited adjusted gross income (AGI) tax deduction, as recognized by this measure. **Meanwhile, IHA programs administered by CDFI- service providers provide savings match incentives to encourage participation, require financial literacy education for participants, and offer one-on-one coaching.** These comprehensive, CDFI-administered IHA programs have demonstrated high rates of success in enabling participating individuals and families to purchase their first home, or obtain financially sustainable rental housing. As IHAs administered by CDFIs do not currently qualify for the AGI deduction available to IHAs held in traditional banks, OHA appreciates the provisions in HB2747 HD2 that would allow CDFI-administered accounts to also qualify for the deduction.

OHA also appreciates provisions in HB2747 HD2 that support our recommendation to establish further incentives for those earning 120% of the area median income or less, and understands under this draft, such income levels will not be subject to deduction recapture, as long as IHA funds are used for their intended purposes. This will further incentivize participation by those who may most benefit from IHA programs, particularly those administered by CDFIs.

**OHA does note that CDFI IHA programs also include IHAs specifically designed to enable houseless individuals and families to secure rental housing, with high demonstrated rates of success;** however, contributions to these types of programs are not deductible, and would remain ineligible for a deduction under this measure as currently written. Accordingly, OHA encourages the committees to consider providing a similar tax deduction for rental IHAs, as found in OHAs HB1746 HD1. **Given the housing crisis and increasing number of working homeless, such programs may provide significant relief to those in need of immediate housing.**

OHA respectfully suggests including clarifying language for the term “entire interest.” It is unclear if this term refers to the interest accrued from savings in an IHA account, or the interest that an individual holds in an IHA account generally (i.e. the total value of the account).

In addition, OHA suggests amending this bill to remove the limit on the number of years an account holder can contribute to an IHA, while keeping the maximum aggregate deduction cap. This would provide individuals and families with the flexibility to continue saving over a longer period of time, even after they have maximized their tax benefits under this bill.

Finally, OHA notes that as drafted the measure applies to accounts that were “established after December 31, 2018,” which could prevent new contributions in pre-existing accounts from qualifying for the tax deduction. Although to OHA’s knowledge there are very few IHA programs currently in operation, OHA is aware of at least three CDFI-administered IHA programs, which OHA has previously or currently funded. The Committees may want to consider amendments to allow new contributions in IHA programs established prior to January 1, 2019, to qualify for the tax deduction.

OHA recognizes that this bill, particularly with the above-described amendments, would reduce state income tax liability for some participating individuals and families, thereby potentially reducing general fund income tax revenues. However, OHA notes that the tax “recapture” would minimize the long-term revenue impacts, and would only be excepted for those earning 120% of the area median income or less. Any immediate reductions in general fund revenue would also likely be minimal, as these deductions are most likely to be claimed only by low-income families who qualify for and complete CDFI-administered IHA programs. Any tax revenue impacts would also be offset by IHA program participants’ increased financial literacy and capacity. **Furthermore, every dollar of income not taxed under the above-recommended amendments will go into a regulated and monitored savings account, and will be cycled directly into the local housing market in the short-term; deducted savings used for anything other than the purchase of a first primary residence or securing a rental unit would be subject to recaptured tax liability, and a tax penalty.** Accordingly, this bill has a great potential to serve as a highly targeted, low-cost method of stabilizing Hawai‘i’s middle class,

encouraging and directly supporting asset-building and housing security for our residents and families.

OHA again reiterates its support for the intent and overall approach behind this measure, which, particularly, with the above suggested amendments, would encourage Native Hawaiians and others to participate in highly successful, CDFI-administered IHA programs; directly supplement their efforts to obtain secure and sustainable housing; and hopefully encourage establishment of more IHA programs to meet Hawai'i residents' housing needs.

Therefore, OHA urges the Committees to **PASS WITH AMENDMENTS** HB2747 HD2. Mahalo for the opportunity to testify on this measure.



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Testimony to the Senate Committees on Housing; and Human Services  
Monday, March 19, 2018  
State Capitol, Room 016

Comments on HB 2747 HD2 – Relating to Homeownership

To: The Honorable Will Espero & Josh Green, Chairs  
The Honorable Breene Harimoto & Stanley Chang, Vice-Chairs  
Members of the Committees

My name is Stefanie Sakamoto, and I am testifying on behalf of the Hawaii Credit Union League, the local trade association for 57 Hawaii credit unions, representing over 800,000 credit union members across the state. We offer the following comments on HB 2747 HD2, Relating to Homeownership.

While we understand and appreciate the intent of this bill, there are unanswered questions as to the administration of this concept. The bill allows for the establishment of the individual housing accounts in Community Development Financial Institutions (CDFIs). Currently, there are only a handful of CDFIs in Hawaii, and many of them are credit unions: Big Island FCU, Hawaii First FCU, Molokai FCU, Hawaii Central FCU, Hawaii FCU, and West Oahu FCU. Opening the account would not be the issue; the question would be who would have the responsibility of “policing” the account if/when the funds are withdrawn. Further, it is unclear how the funds would need to be treated when applying them towards a mortgage loan.

Thank you for the opportunity to provide comments.

March 19, 2018

**The Honorable Will Espero, Chair**  
Senate Committee on Housing

**The Honorable Josh Green, Chair**  
Senate Committee on Human Services  
State Capitol, Room 016  
Honolulu, Hawaii 96813

**RE: H.B. 2747, HD2, Relating to Homeownership**

**HEARING: Monday March 19, 2018, at 2:45 p.m.**

Aloha Chair Espero, Chair Green, 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 **supports** House Bill 2747, HD2, which changes the annual contribution amount, aggregate contribution amount, and number of taxable months for individual housing accounts established after December 31, 2018; allows Community Development Financial Institutions to administer individual housing accounts established after December 31, 2018; and requires homebuyer education.

One of the biggest hurdles for a first-time homeowner is the down payment. To highlight this issue, as of January 2018, the following is the housing data by county and the down payment (20%) needed under conventional financing:

**Condominiums:**


County:	Median:	20% Down:
<i>Island of Hawai'i</i>	\$347,000	\$69,400
<i>Kaua'i</i>	\$287,500	\$57,500
<i>Maui</i>	\$505,563	\$101,113
<i>O'ahu</i>	\$430,000	\$86,000


**Single-Family:**


County:	Median:	20% Down:
<i>Island of Hawai'i</i>	\$327,000	\$65,400
<i>Kaua'i</i>	\$770,000	\$154,000
<i>Maui</i>	\$707,000	\$141,400
<i>O'ahu</i>	\$772,000	\$154,400





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This measure will increase the individual housing accounts to reflect today's higher cost of housing. As REALTORS<sup>®</sup>, we believe in the value of homeownership, which instills pride and a sense of community. As such, HAR supports efforts that help first-time homebuyers achieve their dream.

Mahalo for the opportunity to testify in support of this measure.



**HB-2747-HD-2**

Submitted on: 3/18/2018 5:50:32 PM

Testimony for HOU on 3/19/2018 2:45:00 PM

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

Comments: