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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. 2747, Relating to Homeownership

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

H.B. 2747 changes the aggregate amount that can be contributed to an individual housing account (IHA) and deducted from income from $25,000 to an unspecified amount. The bill also changes the penalty for failure to file a report under the section from $10 to an unspecified amount. The bill applies to taxable years beginning 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 does not change the annual limitation.

The Department notes that the bill only amends the aggregate limitation. At the current limitation levels of $5,000 per year and $25,000 in the aggregate, taxpayers must contribute for five years at the annual maximum before they reach aggregate limit. By increasing the aggregate limitation, but leaving the annual limitation at $5,000, the bill will only benefit those taxpayer who save for more than five years.

If the legislature intent of the measure is to significantly expand the incentive for saving and buying a first principal residence, the Department suggests that an adjustment to the annual limitation be considered in addition to the proposed adjustment to the aggregate limitation.

Finally, the Department is able to administer this bill as written and defers to other agencies regarding the merits of individual housing accounts as a savings tools.

Thank you for the opportunity to provide comments.

HB-2747
Submitted on: 2/5/2018 9:20:22 AM
Testimony for HSG on 2/6/2018 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Melodie Aduja	OCC Legislative Priorities	Support	No

Comments:

LATE

OFFICE OF HAWAIIAN AFFAIRS
Legislative Testimony

HB2747
RELATING TO HOMEOWNERSHIP
House Committee on Housing

February 6, 2018 9:30 AM Room 423

The Office of Hawaiian Affairs (OHA) Committee on Beneficiary Advocacy and Empowerment will recommend that the Board of Trustees **SUPPORT WITH AMENDMENTS** HB2747, which contains provisions similar to those provided under HB1746, a measure in OHA's 2018 Legislative Package. Both measures promotes the economic self-sufficiency and housing security of Hawai'i residents and families, including Native Hawaiians, by updating the aggregate tax deduction allowed for participation in housing savings account programs at traditional banking institutions. **OHA believes that the benefits of this measure may be significantly enhanced by specifically including the following amendments, as also reflected in HB1746: (1) expand the AGI deduction categories to include CDFI-administered individual development accounts for housing (individual housing accounts, or IHAs); (2) update the $5,000 (individual) and $10,000 (married couple) annual caps in addition to the $25,000 aggregate cap on the AGI deduction for housing IHAs—which were originally established in 1982—to reflect the current values of these amounts ($15,000 and $30,000 annual caps and $75,000 total cap); (3) further establish an AGI deduction for savings in Rental IHAs, which are used by individuals and families who have difficulty saving enough to secure rental housing, up to a total deduction limit of $2,500; and (4) remove requirements that individuals pay taxes on individual housing account distributions used to purchase a first principal residence or secure rental housing.**

Individual development accounts for housing, otherwise known as individual housing accounts (IHAs), are critical components of comprehensive, proven approaches 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. making a down payment on a home, or paying a rental deposit and first month's rent). For example, IHA accounts held in a traditional banking institution are provided with tax incentives, as recognized by this measure. Meanwhile, IHA programs administered by community development financial institution (CDFI) service providers provide savings match incentives to encourage participation; these CDFI-administered IHA programs also require financial literacy education for participants, and offer them one-on-one coaching. These CDFI-administered IHA programs in particular have demonstrated high rates of success in allowing participating families and individuals to purchase their first home, or to obtain financially sustainable rental housing. **Notably, however, IHAs administered by CDFIs do not currently qualify for**

an AGI deduction such as that available to IHAs held in traditional banking institutions, and proposed to be updated by this measure.

Accordingly, OHA suggests that the Committee consider amendments that would expand the deduction to apply to CDFI administered IHAs. After doing research OHA was unable to identify any Hawai‘i based IHA programs administered by traditional banks, which could limit the impact of this measure should it pass. Specifically, OHA suggests inclusion of language similar to that found in HB1746, as found on on page 6, lines 6-17; page 7, lines 7-18; page 8, lines 12-19; and page 9, line 20 thru page 10, line 1; with corresponding amendments, additions, and deletions as found throughout HB1746 to reflect the inclusion of an AGI deduction for both homeownership and rental IHAs administered by CDFIs. **Such amendments would encourage and support Native Hawaiians and other Hawai‘i residents in securing better financial futures for themselves and their families, by encouraging greater participation in highly successful and comprehensive CDFI-administered IHA programs .**

In addition, OHA respectfully suggests additional amendments to this measure, that would encourage homeownership IHA account holders to achieve their savings goals in a shorter period of time. As currently written, this measure would update the total aggregate deduction allowed for individuals saving in a homeownership IHA. However, while this would allow individuals and families to claim total overall deductions more commensurate with the cost of purchasing a home today, the allowable annual deductions would still be limited to a small amount each year. OHA therefore suggests amendments that would also increase the limit on the annual AGI deduction for homeownership IHAs (in both traditional banks and CDFIs); for example, HB1747 would increase the annual deduction from $5,000 to $15,000 for individuals, and from $10,000 to $30,000 for married couples, up to an aggregate total of $75,000 in deductions for both individuals and couples. **Such an increase in annual deduction limits would encourage higher rates of savings, and the achievement of savings goals (and first-time homeownership) in a much shorter timeframe.**

For rental IHAs, OHA notes that HB1747 would set the annual and total allowed AGI deduction as $2,500, which would reflect the approximate costs of a rental deposit and first month’s rent.

Finally, OHA suggests amendments to remove the tax “recapture” provision currently applied to IHA savings if they are ultimately expended for housing. **Removing provisions that IHA savings be taxed upon expenditure would further encourage account holders to save for their future housing needs, and would treat such savings as true deductions rather than a mere deferral of tax liability**. Accordingly, OHA respectfully suggests inclusion of language similar to that found on HB1746 page 12, line 3 thru page 15, line 16, which would remove the tax “recapture” for IHA savings used to purchase a home. Notably, with these amendments, IHA savings that are spent for purposes other than for obtaining housing would still be subject to “recaptured” tax liability, as well as a 10% tax penalty.

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 IHA programs, directly supplement their efforts to obtain secure and sustainable housing, and hopefully encourage establishment of more IHA programs to meet our state's housing needs.

OHA recognizes that this bill, particularly with the above-described amendments, would expand existing tax deductions; OHA accordingly acknowledges that it may reduce state income tax liability for some individuals and families, thereby potentially reducing general fund income tax revenues. However, the reductions in general fund revenue would likely be minimal, as most deductions are likely to be claimed 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. **In addition, 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 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.

Therefore, OHA urges the Committee to **<u>PASS WITH AMENDMENTS</u>** HB2747. Mahalo nui for the opportunity to testify on this measure.

Hawai‘i Association of REALTORS®

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February 6, 2018

LATE

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The Honorable Tom Brower, Chair
House Committee on Housing
State Capitol, Room 423
Honolulu, Hawaii 96813

RE: H.B. 2747, Relating to Homeownership

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 **supports** House Bill 2747, which assists first-time homebuyers in saving to buy a home by increasing the aggregate total that can be saved in individual housing accounts free of state income taxation.

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

Condominiums:

County:	Median:	20% Down:
Island of Hawai‘i	$288,000	$57,600
Kaua‘i	$550,000	$110,000
Maui	$440,000	$88,000
O‘ahu	$405,000	$81,000

Single-Family:

County:	Median:	20% Down:
Island of Hawai‘i	$339,000	$67,800
Kaua‘i	$587,500	$117,400
Maui	$695,500	$139,100
O‘ahu	$750,000	$150,000

This measure will increase the individual housing accounts to reflect today’s higher cost of housing. As REALTORS®, 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.