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 9, 2017 at 9:00 a.m.
State Capitol, Room 423

In consideration of
H.B. 486
RELATING TO THE MORTGAGE INTEREST DEDUCTION.

The HHFDC ***offers the following comments*** on H.B. 486. 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
LT. GOVERNOR

MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
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To: The Honorable Tom Brower, Chair
and Members of the House Committee on Housing

Date: Thursday, February 9, 2017
Time: 9:00 A.M.
Place: Conference Room 423, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 486, Relating to the Mortgage-Interest Deduction

The Department of Taxation (Department) appreciates the intent of H.B. 486 and provides the following comments for your consideration.

H.B. 486 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 (IRC) 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 deduction 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~~] <u>Revenue gain attributable to this Act shall be deposited </u>into the rental housing revolving fund established by section 201H-202, Hawaii Revised Statutes.

Thank you for the opportunity to provide comments.

LEAGUE OF WOMEN VOTERS®

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COMMITTEE ON HOUSING

THURSDAY, Feb. 9 2017,9 am, Room Number 423
HB 486, Relating to the Mortgage Interest Deduction
TESTIMONY
Beppie Shapiro, Legislative Committee, League of Women Voters of Hawaii

Chair Brower, Vice-Chair Nakamura, and Committee Members:

The League of Women Voters of Hawaii supports HB486 which eliminates the mortgage interest deduction on second homes and requires that the increase in the amount of taxes collected due to this change be deposited in the rental housing revolving fund.

The purpose of the mortgage interest deduction was to encourage and facilitate home ownership. However with an ever-growing population needing housing in a state with limited land and available real estate, it is important to try to facilitate the maximum number of households having access to home ownership.

HB486 would address this priority. We do not need to encourage people to buy second homes in Hawaii! We need to maximize the housing opportunities available to people who are trying to buy a primary residence. Please pass HB486.

Thank you for the opportunity to submit testimony.

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; HB 486 (Identical)

INTRODUCED BY: SB by K. RHOADS, Shimabukuro, Taniguchi; HB by BROWER, HASHEM, HOLT, KEOHOKALOLE, KONG, MCKELVEY, NAKAMURA, NISHIMOTO, QUINLAN, San Buenaventura

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

Hawai‘i Association of REALTORS®
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1259 A‘ala Street, Suite 300
Honolulu, HI 96817

February 9, 2017

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

RE: H.B. 486, Relating to the Mortgage Interest Deduction

HEARING: Thursday, February 9, 2017, at 9:00 a.m.

Aloha Chair Brower, Vice Chair Nakamura, 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** H.B. 486 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 Revolving 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, and interest paid on home equity debt.

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.

In today’s real estate environment, more homeowners 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 individuals 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.

LATE

Maureen Gapp
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Pahoa, HI 96778
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808-938-8677

Feb. 9, 2017

Bill HB 486 seeks to eliminate mortgage deduction for second homes and place money in a revolving housing fund.
I am opposed to this bill as it discourages investment in our state. Many people purchase a second home and rent it out. I have done this in Hilo. Housing is Hilo is severely limited. I have chosen to invest in my home state. I rent to people that work and live in Hilo. The mortgage deduction was an incentive. Removing it will discourage investment and limit our rental market in Hilo even more.

TO: Members of the Committee on Housing

FROM: Natalie Iwasa
Honolulu, HI 96825
808-395-3233

HEARING: 9 a.m. Thursday, February 9, 2017

SUBJECT: HB 486, Mortgage Interest Deduction 2nd Homes - **OPPOSED**

Aloha Chair and Committee Members,

Thank you for allowing me the opportunity to provide testimony on HB 486, which would eliminate the tax deduction for mortgage interest on second homes.

As a renter, I am opposed to this. Over 40% of residents on Oahu rent, and many of the housing units provided for those renters is from owners who own more than one home. Removing this deduction would increase their costs and very likely lead to increased rent.

Please vote “no” on this bill.