

DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
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 Stanley Chang, Chair
and Members of the Senate Committee on Housing

Date: Thursday, February 7, 2019
Time: 1:20 P.M.
Place: Conference Room 225, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: S.B. 100, Relating to Taxation

The Department of Taxation (Department) offers the following comments on S.B. 100 for the Committee's consideration.

S.B. 100 limits the mortgage interest deduction to interest attributable to mortgages on 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 be deposited into the rental housing revolving fund. S.B. 100 is effective upon approval and applies to taxable years beginning after December 31, 2018.

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. Though these rules were suspended by the Tax Cuts and Jobs Act of 2017 for federal income tax purposes, the IRC section 68 limitations still apply for Hawaii income tax purposes. The IRC 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. For Hawaii income tax purposes, the threshold is \$166,800 for all taxpayers except married taxpayers filing separately, for which it is \$83,400.

Due to the existing limits in IRC section 68, 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 IRC 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 sections 163(h)(4)(A)(i)(II) and 163(h)(4)(A)(ii)(II) of the Internal Revenue Code non-operative and, following this calculation, by September 1, shall transmit an equivalent amount of income tax revenue to the director of finance for deposit]~~ Revenue gain attributable to this Act shall be deposited into the rental housing revolving fund established pursuant to section 201H-202, Hawaii Revised Statutes.

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

SENATE COMMITTEE ON HOUSING

February 7, 2019 at 1:20 p.m.
State Capitol, Room 225

In consideration of
S.B. 100
RELATING TO TAXATION.

The HHFDC *offers the following comments* on S.B. 100. We appreciate the intent of this bill, as it would provide additional resources for the Rental Housing Revolving Fund to help finance additional affordable rental housing development statewide. We take no position on the implications this bill may have on State income taxation policy.

Thank you for the opportunity to testify.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Disallows Home Mortgage Interest Deduction for Second Homes

BILL NUMBER: SB 100

INTRODUCED BY: K. RHOADS, S. Chang, Keith-Agaran, Shimabukuro

EXECUTIVE SUMMARY: Eliminates the home mortgage interest deduction for second homes under Hawaii income tax law. Requires the department of taxation to calculate the amount of state revenue gained by eliminating the deduction and transfer an equivalent amount of income tax revenue into the rental housing revolving fund.

SYNOPSIS: Amends section 235-2.4, HRS, to eliminate the home mortgage interest deduction for second homes for Hawaii income tax purposes.

Directs DOTAX to calculate the revenue gained by eliminating the above deduction, and to transmit an equivalent amount of revenue for deposit into the rental housing revolving fund.

EFFECTIVE DATE: Taxable years beginning after December 31, 2018.

STAFF COMMENTS: 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 revolving 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 2/4/2019



49 South Hotel Street, Room 314 | Honolulu, HI 96813
www.lwv-hawaii.com | 808.531.7448 | voters@lwv-hawaii.com

COMMITTEE ON HOUSING

THURSDAY, 2/7/19, 1:20 PM, Room 225
SB100, RELATING TO TAXATION

TESTIMONY

Beppie Shapiro, Legislative Committee, League of Women Voters of Hawaii

Chair Chang, Vice-Chair Kanuha and Committee Members:

The League of Women Voters of Hawaii **supports SB100 that eliminates the home mortgage income tax deduction currently available to Hawaii tax filers for second homes in Hawaii.**

The League of Women Voters supports an equitable tax system that provides adequate and flexible funding of government programs, that is progressive overall and that relies primarily on a broad-based income tax.

Our State government has many urgent needs for funding (for example the unfunded liabilities for public employees retirement benefits; affordable housing on all islands; protection of state lands and parks; replacing fossil fuels with renewable energy quickly; moving infrastructure away from rising seas; etc.)

The existing tax base does not provide adequate funds for all or even most of these urgent needs.

The purpose of the home mortgage income tax deduction is to encourage home ownership (and coincidentally benefit the home mortgage industry). In Hawaii, with a severe shortage of land for housing and a large part of the population for whom home ownership is not a realistic option, we believe the State cannot afford to encourage ownership of second homes. SB100 removes one incentive for ownership of second homes, and paves the way for a modest increase in tax revenues.

We are pleased that the general fund increase due to SB100's application will be used to enrich the Rental Housing Revolving Fund, which encourages construction of affordable housing units.

Thank you for the opportunity to submit testimony.

February 7, 2019

LATE

The Honorable Stanley Chang, Chair
Senate Committee on Housing
State Capitol, Room 225
Honolulu, Hawaii 96813

RE: S.B. 100 Relating to Taxation

HEARING: Thursday, February 7, 2019, at 1:20 p.m.

Aloha Chair Chang, Vice Chair Kanuha, and Members of the Committee,

I am Ken Hiraki Government Affairs Director, testifying on behalf of the Hawai'i Association of REALTORS® ("HAR"), the voice of real estate in Hawai'i, and its over 9,500 members. HAR opposes Senate Bill 100, which eliminates the home mortgage interest deduction for second homes under Hawai'i income tax law. This measure also requires the Department of Taxation to calculate the amount of state revenue gained by eliminating the deduction and transfer an equivalent amount of income tax revenue into the Rental Housing Revolving Fund.

The Mortgage Interest Deduction (MID) on state and federal income taxes was introduced along with the income tax itself in 1913. The 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 financial security through homeownership. The deduction helps home 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.

Mahalo for the opportunity to testify.