



**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. 1120, Relating to the Conveyance Tax

The Department of Taxation (Department) appreciates the intent of S.B. 1120 and offers the following comments for the Committee's consideration.

S.B. 1120 makes several changes to the conveyance tax. A summary of key provisions are as follows:

- Amends section 247-2, Hawaii Revised Statutes (HRS), to increase conveyance tax rates:
  - From fifty cents per \$100 to \$1.50 per \$100 for properties with a value of at least \$2,000,000 but less than \$4,000,000; with the conveyance tax rates on sales of those properties for which the purchaser is ineligible for a county homeowner's exemption of property tax increasing from sixty cents per \$100 to \$2 per \$100;
  - From seventy cents per \$100 to \$2.50 per \$100 for properties with a value of at least \$4,000,000 but less than \$6,000,000; with the conveyance tax rates on sales of those properties for which the purchaser is ineligible for a county homeowner's exemption of property tax increasing from eighty-five cents per \$100 to \$3 per \$100;
  - From ninety cents per \$100 to \$3.50 per \$100 for properties with a value of at least \$6,000,000 but less than \$10,000,000; with the conveyance tax rates on sales of those properties for which the purchaser is ineligible for a county homeowner's exemption of property tax increasing from one dollar and ten cents per \$100 to \$4 per \$100;
  - From one dollar per \$100 to \$4.50 per \$100 for properties with a value of \$10,000,000 or greater; with the conveyance tax rates on sales of those properties for which the purchaser is ineligible for a county homeowner's exemption of property tax increasing from one dollar and twenty-five cents per \$100 to \$5 per \$100;

- Amends section 247-3, HRS, to exempt from conveyance tax any document or instrument conveying real property subject to a government assistance program qualified by the Hawaii Housing Finance and Development Corporation (HHFDC) and administered or operated by the State, the Corporation, the United States, or any of their political subdivisions, agencies, or instrumentalities, which may be used to effectuate housing development and acquisition for the provision of affordable housing for qualified persons in the State;
- Amends section 247-7, HRS, to allocate fifty per cent of collected conveyance taxes to the rental housing revolving fund established by section 201H-202, HRS. The existing allocation mechanism calls for the lesser of either fifty per cent of collected conveyance taxes, or \$38,000,000, to be paid into the fund; and
- Effective July 1, 2019.

First, the Department notes that this measure adds an exemption to the conveyance tax for property subject to an HHFDC-qualified government assistance program that is administered or operated by the federal or state government. The Department defers to the HHFDC on the merits of this provision, but notes that the existing conveyance tax exemptions are categorical in nature and this would be the first policy-based exemption from the conveyance tax. The Department acknowledges the critical need for low-income and affordable housing, but asks that the Legislature pay careful attention to other conveyance tax exemption proposals that may follow.

Second, the Department notes that the phrase "may be used to effectuate housing development and acquisition for the provision of affordable housing for qualified persons in the State" is unclear and would make this exemption extremely difficult to administer. The Department recommends defining the phrases, "may be used to effectuate," "affordable housing," and "qualified persons."

Finally, the Department notes that the July 1, 2019 effective date for the measure may not provide enough time for the Department to update its forms and instructions, or to provide notice to the public of the change in rates or the new exemption. Accordingly, the Department respectfully requests that the effective date of the bill be changed to January 1, 2020, to allow sufficient time to accomplish these tasks.

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. 1120**  
**RELATING TO THE CONVEYANCE TAX.**

The HHFDC *offers the following comments* on S.B. 1120. We appreciate the intent of this bill, which increases the conveyance tax rates, exempts from conveyance taxes the transfer of real property subject to a government assistance program to provide affordable housing, and lifts the statutory cap on the disposition of conveyance taxes for deposit into the Rental Housing Revolving Fund (RHRF). The net result of this proposal would be to provide additional resources that may be used to finance affordable rental housing for low-income households without increasing the fixed costs of such housing.

Thank you for the opportunity to testify.



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  
SB1120, RELATING TO THE CONVEYANCE TAX  
**TESTIMONY**

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

Chair Chang, Vice-Chair Kanuha and Committee Members:

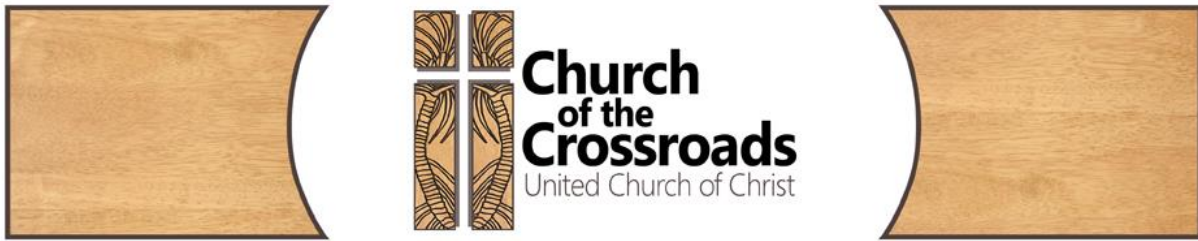
**The League of Women Voters of Hawaii strongly supports SB1120 which would increase the conveyance tax on properties valued at \$2 million or more; of taxes gained from this increase, 50% would be deposited in the Rental Housing Revolving Fund (RTRF) and 10% into the land conservation fund.**

This measure would address two social problems which have received widespread attention and concern both nationally and within Hawai'i. The first is the huge and growing inequality in income and wealth between a small, wealthy part of the population and a much larger and poorer part of the population. We probably don't need to cite evidence for this concern, but according to the Annual Report of the United Health foundation, Hawaii's income inequality measured by the GINI index increased for the third year in a row in 2018. According to the Economic Policy Institute, the average annual income of the top 1% of earners in Hawaii was over \$797,000, while the average income of the bottom 99% was just under \$58,000 (see <http://www.epi.org/multimedia/unequal-states-of-america/#/Hawaii>).

SB1120 would address this problem by taxing transfers of very high value properties at much higher levels than is currently done. Taxes on lower end properties would remain unchanged. This would redress some of the regressive aspects of taxation in Hawaii.

The second pressing problem addressed by this bill is the critical shortage of affordable rental housing nationally and in the state. The book "Evicted", by Matthew Desmond (Crown Publishers, 2016) has received widespread attention and acclaim for its depiction of the plight of very poor renters who are just one step away from eviction, often due to a health or transportation problem or a family emergency. Many more, less severely poor households in Hawaii face a housing market with a drastic gap between wages and housing prices. The RTRF provides loans to help low income households get or remain in stable housing. SB1120 would increase the funds in this fund, thereby enabling critically needed assistance to more households.

Thank you for the opportunity to submit testimony.



***A Just Peace and Open and Affirming Congregation***

**TESTIMONY IN SUPPORT OF BILL SB1120  
Submitted by Church of the Crossroads  
To the Senate Committee on Housing  
Date: February 7, 2019, at 1:20pm  
In Conference Room 225**

*The Church of the Crossroads was founded in 1922 and is Hawaii's first intentionally multicultural church.*

**We strongly support this bill**, that will (1) increase Conveyance Tax on properties of \$2 million or more, and (2) remove the current \$38million cap on revenues flowing to the Rental Housing Revolving Fund (RHRF) for affordable housing.

Sellers of high end properties (many of whom are off-shore investors) are not paying their fair tax share. Our current conveyance tax rates are only 0.50% to 1.25% on multi-million dollar properties. By contrast, our state's poor face the nation's second-largest tax burden, and our residents with low to middle income pay regressive taxes of 4.5% to 10%+ for most of their goods and services.

Hawaii is in a housing crisis. We need affordable housing for working families and local residents. We should not allow our real estate to be sold at such high prices with such low tax return, when these high-end sales are fueling our affordable housing crisis. The state has shown it understands this close relationship between real estate sales and affordability, as it has imposed a progressive tax on these conveyances and devoted 50% of those tax proceeds to address affordable housing needs via the RHRF (which provides low-interest loans and grants to qualified owners and developers of affordable housing).

The State Department of Taxation has calculated (Jan 2019) that the additional funds generated by this tax increase would provide over \$36,000,000 to the RHRF annually, and over \$17,000,000 to the General Fund. These additional tax revenues will help affordable housing and the state's treasury.



**Church  
of the  
Crossroads**  
United Church of Christ



***A Just Peace and Open and Affirming Congregation***

We provide a summary table below to show the difference in tax rates before and after adoption of this bill into law.

**Summary Table of Real Estate Conveyance Tax rates**

The actual tax rate depends on whether the buyer qualifies for a home-owner exemption. The current (“old”) tax rate and proposed (“new”) tax rates are shown below, expressed as a percentage of total value of the conveyance:

Transaction categories	Homeowner Exemption Old / New	No Homeowner exemption Old/New
up to \$600k	0.10 / 0.10	0.15 / 0.15
600K to \$1 mill	0.20 / 0.20	0.25 / 0.25
\$1 mill - \$2 mill	0.30 / 0.30	0.40 / 0.40
\$2 mil - 4 mil	0.50 / 1.50	0.60 / 2.00
\$4 mil - 6 ml	0.70 / 2.50	0.85 / 3.00
\$6 mil - 10 mil	0.90 / 3.50	1.10 / 4.00
\$10 mil and over	1.00 / 4.50	1.25 / 5.00

For the foregoing reasons, the Church of the Crossroads supports this bill and urges the committee to pass it.



**Evelyn Hao**  
President

TESTIMONY IN SUPPORT OF BILL SB1120

To the Senate Committee on Housing

on February 7, 2019 at 1:20pm

In Conference Room 225

**Rev. Won-Seok Yuh**  
Vice President-  
Clergy

**William Bekemeier**  
Vice President-  
Laity

**Jon Davidann**  
Treasurer

Faith Action for Community Equity (formerly FACE) is a 23-year-old grassroots, interfaith organization that includes 18 congregations and temples, a union, housing association, health center and 3 advocacy organizations on Oahu. Faith Action is driven by a deep spiritual commitment to improve the quality of life for our members and all people of Hawaii. We strive to address issues of social justice at all levels of government.

**Deanna Espinas**  
Secretary

We strongly support this bill that will (1) increase Conveyance Tax on properties of \$2 million or more, and (2) remove the current \$38million cap on revenues flowing to the Rental Housing Revolving Fund (RHRF) for affordable housing.

**Christy MacPherson**  
Executive  
Director

Sellers of high-end properties (many of whom are off-shore investors) are not paying their fair tax share. Our current conveyance tax rates are only 0.50% to 1.25% on multi-million-dollar properties. By contrast, our state's poor face the nation's second-largest tax burden, and our residents with low to middle income pay regressive taxes of 4.5% to 10%+ for almost all their goods and services.

**Soo San Schake**  
Organizing  
Assistant

Hawaii is in a housing crisis. We need affordable housing for working families and local residents. We should not allow our real estate to be sold at such high prices with such low tax return, when these high-end sales are fueling our affordable housing crisis. The state has shown it understands this close relationship between real estate sales and affordability, as it has imposed a progressive tax on these conveyances and devoted 50% of those tax proceeds to address affordable housing needs via the RHRF (which provides low-interest loans and grants to qualified owners and developers of affordable housing).

This bill would impose higher conveyance taxes (payable by seller), only on property transactions valued at \$2,000,000 and above. These additional tax revenues will provide a continuing source of revenues to help affordable housing and the state's treasury.

The State Department of Taxation has calculated that the additional funds generated by this tax increase would provide over \$36,000,000 to the RHRF annually, and over \$17,000,000 to the General Fund.

We attach a summary table below to show the difference in tax rates before and after adoption of this bill into law.

## Summary Table of Real Estate Conveyance Tax rates

The actual tax rate depends on whether the buyer qualifies for a home-owner exemption.

### With Homeowner Exemption

Amount of sale	Current rate	Current amount	Proposed Rate	Proposed amount
\$2,000,000	0.50%	\$10,000	1.50%	\$30,000
\$4,000,000	0.75%	\$30,000	2.50%	\$100,000
\$6,000,000	0.90%	\$54,000	3.50%	\$210,000
\$10,000,000	1.00%	\$100,000	4.50%	\$450,000

### Without Homeowner Exemption

Amount of sale	Current rate	Current amount	Proposed Rate	Proposed amount
\$2,000,000	0.60%	\$12,000	2.00%	\$40,000
\$4,000,000	0.85%	\$34,000	3.00%	\$120,000
\$6,000,000	1.10%	\$66,000	4.00%	\$240,000
\$10,000,000	1.25%	\$125,000.00	5.00%	\$500,000

For the foregoing reasons, Faith Action for Community Equity supports this bill and urges the committee to pass it.

Respectfully submitted,

Evelyn Aczon Hao  
President  
Faith Action for Community Equity



# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: CONVEYANCE, Tax Hike, Remove Cap on Earmark to Rental Housing Revolving Fund

BILL NUMBER: SB 1120

INTRODUCED BY: HARIMOTO, MORIWAKI, RUDERMAN, S. Chang

EXECUTIVE SUMMARY: Proposes to reverse Act 84, SLH 2015, which imposed the \$38 million cap on the conveyance tax revenues to be redirected to the rental housing revolving fund. The cap was imposed to make general fund forecasting more reliable and increase transparency and accountability.

SYNOPSIS: Amends section 247-2, HRS, to raise the conveyance tax rates as follows:

For a condominium or single-family residence for which the purchaser is eligible for a county homeowner's exemption on real property tax:

Minimum Property Value	Current Tax (per \$100 of consideration)	New Tax (per \$100 of consideration)
\$0	\$ 0.10	\$ 0.10
\$600,000	0.20	0.20
\$1,000,000	0.30	0.30
\$2,000,000	0.50	<b>1.50</b>
\$4,000,000	0.70	<b>2.50</b>
\$6,000,000	0.90	<b>3.50</b>
\$10,000,000	1.00	<b>4.50</b>

For a condominium or single-family residence for which the purchaser is ineligible for a county homeowner's exemption on real property tax:

Minimum Property Value	Current Tax (per \$100 of consideration)	New Tax (per \$100 of consideration)
\$0	\$ 0.15	\$ 0.15
\$600,000	0.25	0.25
\$1,000,000	0.40	0.40
\$2,000,000	0.60	<b>2.00</b>
\$4,000,000	0.85	<b>3.00</b>
\$6,000,000	1.10	<b>4.00</b>
\$10,000,000	1.25	<b>5.00</b>

There is no tax rate change proposed for all other conveyances.

Amends section 247-3, HRS, to add a new exemption for real property subject to a government assistance program to effectuate housing development and acquisition for the provision of affordable housing for qualified persons in the State.

Amends section 247-7, HRS, to repeal the \$38 million cap on the earmark on the tax in favor of the rental housing revolving fund.

EFFECTIVE DATE: July 1, 2019.

STAFF COMMENTS: The conveyance tax was enacted by the 1966 legislature after the repeal of the federal law requiring stamps for transfers of real property. It was enacted for the sole purpose of providing the department of taxation (which at the time also administered the real property tax) with additional data for the determination of market value of properties transferred. This information was also to assist the department in establishing real property assessed values and at that time the department stated that the conveyance tax was not intended to be a revenue raising device.

Prior to 1993, the conveyance tax was imposed at the rate of 5 cents per \$100 of actual and full consideration paid for a transfer of property. At the time all revenues from the tax went to the general fund. The legislature by Act 195, SLH 1993, increased the conveyance tax to 10 cents per \$100 and earmarked 25% of the tax to the rental housing trust fund and another 25% to the natural area reserve fund. Because of legislation in 2005 and in 2009, the conveyance tax rates were substantially increased and bifurcated between nonowner-occupied residential properties and all other properties. Tax brackets were based on the amount of the value transferred. Until 2005, 50% of the receipts went into the general fund and the other half was split with the affordable rental housing program and the natural area reserve program. Beginning in 2005, another 10% was taken for the land conservation fund. In 2009, legislators reduced the amount of conveyance tax revenues earmarked to the rental housing trust fund from 30% to 25% until June 30, 2012 to generate additional revenues for the state general fund. Act 164, SLH 2014, increased the earmark to 50% as of July 1, 2014, and Act 84, SLH 2015, imposed the \$38 million cap on the earmark.

In 2015, the Conference Committee explained the rationale for the cap on the earmark as follows:

Your Committee on Conference finds that budgetary planning and transparency are key components to ensuring the ongoing fiscal health of the State. Your Committee on Conference believes that, by establishing maximum amounts to be distributed to various non-general funds from the conveyance tax, this measure will make forecasts of general fund revenues more reliable, will increase legislative oversight of agencies and programs supported by the non-general funds, and will subject those agencies and programs to competition for limited public funds if the agencies or programs want more than the amount automatically distributed to their non-general funds.

Reinstating the prior law that contained no cap on the earmarked revenues should be done only with great caution. 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



February 4, 2019

Senator Stanley Chang, Chair  
Senator Dru Mamo Kanuha, Vice Chair  
Senate Committee on Housing

**Comments, Concerns and Opposition to SB 1120, Relating to the Conveyance Tax (Increases the rate of real estate conveyance tax for properties with a value of at least \$2,000,000; amends the calculation for the amount of conveyance taxes to be deposited into the rental housing revolving fund; exempts certain affordable housing developments from conveyance taxes, specifically only those involving real property subject to a government assistance program and used for the provision of affordable housing for qualified persons in the State.)**

**Thursday, February 7, 2019, at 1:20 p.m., in Conference Room 225**

The Land Use Research Foundation of Hawaii (LURF) is a private, non-profit research and trade association whose members include major Hawaii landowners, developers and a utility company. One of LURF's missions is to advocate for reasonable, rational and equitable land use planning, legislation and regulations that encourage well-planned economic growth and development, while safeguarding Hawaii's significant natural and cultural resources and public health and safety.

LURF appreciates the opportunity to provide **comments, concerns and opposition** to this bill.

**SB 1120.** While this measure does not contain a purpose clause, it is presumed that it is intended as a method to generate revenue for the identified funds specifically proposed to be subsidized by the conveyance tax, which in this case, includes the general fund of the State; the land conservation fund established pursuant to section 173A-5; and the rental housing revolving fund established by section 201H-202. To do so, this bill proposes to increase the rate of real estate conveyance tax for properties with a value of at least \$2,000,000.

**LURF's Position.** The proposed increase of the conveyance tax rate for the sale of certain properties is inappropriate, improper, and illegal, given the following:

**1. The Hawaii Conveyance Tax was never intended as a revenue-generating tax.**

Hawaii Revised Statutes (“HRS”), Chapter 247 (Conveyance Tax), was purposefully enacted in 1966 to provide the State Department of Taxation (“DoTax”) with informational data for the determination of market value of properties transferred, and to assist the DoTax in establishing real property assessed values. In short, the sole intent of the conveyance tax was originally to cover the administrative costs of collecting and assessing said informational data, which necessarily entails the recording of real estate transactions, as performed by the Bureau of Conveyances.

Since the enactment of HRS Chapter 247, however, the State Legislature has proposed, and has successfully implemented changes to the law 1) to allow application of conveyance tax revenue to a number of non-conveyance type uses (land conservation fund; rental housing trust fund; and natural area reserve fund) to the point where there is no longer any clear nexus between the benefits sought by the original Act and the charges now proposed to be levied upon property-holding entities transferring ownership; and 2) also to increase the tax rates to the point where said revenues now appear to far exceed the initially stated purpose of the Act.

These expansions and deviations which go beyond the scope of the original intent of the conveyance tax law are concerning since the proposed bills, particularly if unlawfully targeting certain types of transactions or property owners, could be characterized as imposing an improper penalty, hidden tax, or surcharge, which may be subject to legal challenge.

**2. SB 1120 appears to be illegal and in violation of Sections 37-52.3 and 37-52.4, Hawaii Revised Statutes (“HRS”), because it attempts to use the Conveyance Tax to subsidize or increase subsidies to special funds which do not have a clear nexus between the benefits sought and charges made upon the users or beneficiaries of the program.**

Special funds are subject to Sections 37-52.3 and 37-52.4 HRS. Criteria for the establishment and continuance of special and revolving funds was enacted by the 2002 Legislature through Act 178, SLH 2002, Sections 37-52.3 and 37-52.4, HRS. To be approved for continuance, a special fund must:

- a. serve the purpose for which it was originally established;
- b. reflect a clear nexus between the benefits sought and charges made upon the users or beneficiaries of the program, as opposed to serving primarily as a means to provide the program or users with an automatic means of

- support that is removed from the normal budget and appropriation process;
- c. provide an appropriate means of financing for the program or activity; and
  - d. demonstrate the capacity to be financially self-sustaining.

The first and second criteria are nearly identical to those in Act 240, SLH 1990, codified in Section 23-11, HRS, requiring the Auditor to review all legislative bills in each session to establish new special or revolving funds. It appears that the intent of SB 1120 is to find an additional source of funding for affordable housing by increasing conveyance tax revenues for the transfer of “luxury” properties. However, the State Auditor has in the past concluded that such an arrangement where there is no *clear link* with the funding source (individuals and companies involved in specific, particular types of real estate transactions) should be repealed.

**3. Other legal and voluntary alternatives may be available to increase funding or incentivize support for affordable housing.**

In lieu of improperly imposing increases of conveyance taxes to increase the State’s general fund, or to subsidize or increase revenue for certain unrelated special funds with no clear link to the conveyance tax purposes or beneficiaries, proponents of those special funds or programs are urged to look to other possible legitimate means to do so, including funding support through other “related” or “linked” state and county charges, fees or taxes.

Given the “*clear nexus*” requirement for special and revolving funds, and also given that general funding and alternative methods to secure revenues for these funds exist, expansions and deviations of HRS Chapter 247 which go beyond the scope of the original intent of the conveyance tax law are concerning since this proposed bill, particularly if it unlawfully targets transactions involving the sale of interests by a particular group of individuals or entities which own real property in the State, could be characterized as imposing an improper penalty, hidden tax, or surcharge, which may be subject to legal challenge.

Understanding the importance of the conveyance tax issues raised by SB 1120, **LURF respectfully requests that this bill be deferred, or held by this Committee** to allow stakeholders, including, but not limited to government agencies, the public, private landowners, legal experts and other interested parties to work together to come to a consensus regarding the bill’s purpose, as well as alternatives to funding affordable housing through the general fund and perhaps other broad-based supplemental funding by Hawaii’s taxpayers and visitors.

Thank you for the opportunity to provide comments and concerns relating to this proposed measure.

**SB-1120**

Submitted on: 2/6/2019 1:08:31 AM

Testimony for HOU on 2/7/2019 1:20:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Robert H Stiver	Testifying for Faith Action for Community Equity	Support	No

Comments:

I fully support SB 1120!



February 5, 2019

Senator Stanley Chang, Chair  
Senator Dru Mamo Kanuha, Vice Chair  
Members of the Senate Committee on Housing  
Thirtieth Legislature  
Regular Session of 2019

RE: **SB 1120 - Relating to the Conveyance Tax**  
**Hearing date: February 7, 2019 at 1:20 pm**

Aloha Chair Chang, Vice Chair Kanuha and members of the Committee on Housing,

We at NAIOP Hawaii appreciate the opportunity to testify in OPPOSITION to SB 1120 - Relating to the Conveyance Tax. NAIOP Hawaii is the Hawaii chapter of the nation's leading organization for office, industrial, retail, residential and mixed-use real estate. NAIOP Hawaii has over 200 members in the State including local developers, owners, investors, asset managers, lenders and other professionals.

SB 1120 increases the rate of real estate conveyance tax for properties with a value of at least \$2,000,000. The increased tax collected would help to increase money set aside for the rental housing revolving fund. Although NAIOP Hawaii supports the development of both rental and for sale housing at all income levels, increasing the conveyance tax for properties simply adds to the expenses placed upon Hawaii residents.

Currently Hawaii's residents and businesses are already among the most heavily taxed in the entire country which tremendously stifles economic growth and prosperity for all. In addition, Hawaii's residents suffer the highest cost of living in the entire country. Continually increasing taxes on commercial real estate only exacerbates these problems for several reasons.

First, the tax increase disproportionately punishes commercial property without a rational nexus to affordable housing. For example, the conveyance tax on a property sold at \$999,999 would be about \$3,000, while the tax on a property sold at \$10 million would be 150 times as much at \$450,000. Although there are some residential properties that fall into the highest conveyance tax category, most of the new tax burden will fall on office, retail and industrial properties as the majority of these property types exceed \$2,000,000 in value. Thus, there is a huge disparity on payment with the

P.O. Box 1601, Honolulu, HI 96806 \* Phone (808) 864-7983 \* Fax (808) 888-6283

890289.2



Senator Stanley Chang, Chair  
Senator Dru Mamo Kanuha, Vice Chair  
Senate Committee on Housing  
SB 1120 - Relating to the Conveyance Tax

Page 2

primary burden of increased funding is attributed to commercial property without a rational link between a business transaction and funding for affordable rentals.

Second, the proposed increase is between three to four and a half times the current conveyance tax rates. The increased tax rate would also have a significant impact on all parts of the economy such as small and large businesses that own their own building, the elderly, many of whom have worked hard their entire lives to build equity through real estate, and local businesses which will be forced to pay higher rents to tenants to cover increased transaction costs. In addition, buyers of large transactions often make significant investments to renovate, redevelop or reposition in conjunction with their acquisition. The additional conveyance tax may cause a disincentive to transact, as well which will lead to less capital spending, further deterioration of our aging properties, and may ultimately provide less economic stimulus into our economy.

Third, the new rule completely ignores whether the property is being sold for a profit or loss, nor does it take into account the amount of indebtedness that the property holds. In some cases, the amount of conveyance taxes may be in excess of the net proceeds to the seller, thereby forcing a seller to fund conveyance taxes out of pocket.

Finally, a drastic increase in the conveyance tax will likely decrease property values in lockstep by the increase in tax rate. The payment of conveyance tax in commercial property transactions is heavily negotiated, and as a result, buyers will factor in this added cost when arriving at a purchase price. For example, increasing the conveyance tax rate from 1.0% to 4.5% will cause a simultaneous decrease in property values by 3.5% because buyers will factor in this added transaction cost and pay 3.5% less for the property. This reduction in property values will ultimately affect the property tax base, which will reduce funds received by county governments to maintain infrastructure or services.

Simply put, sharp tax increases almost always have a chilling effect on business transactions, due in part to the unplanned costs, which will adversely affect the state's economy. Increased taxation on commercial real estate inevitably increases the cost of living to all Hawaii residents. Instead, the appropriate strategy is to find the required funding through cost reduction strategies within the existing State budget which would enhance tax payer/voter value. For these reasons we encourage you to defer SB 1120.

Mahalo for your consideration,

Daniel Cody, Director  
NAIOP Hawaii

February 7, 2019

**LATE**

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

**RE: S.B. 1120 Relating to the Conveyance Tax**

**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 **strongly opposes** Senate Bill 1120 which increases the rate of real estate conveyance tax for properties with a value of at least \$2,000,000.

Additionally, this measure amends the calculation for the amount of conveyance taxes to be deposited into the Rental Housing Revolving Fund. Exempts from conveyance taxes documents and instruments conveying real property subject to a government assistance program and used for the provision of affordable housing for qualified persons in the State.

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%.

This measure proposes to increase the Conveyance Tax to the following:

Property Value	Current Rate Per \$100	Proposed Rate: Per \$100	% Tax Increase	Current Tax Rate in Dollars	Proposed Tax Rate in Dollars
\$2 mil - \$3.99 mil	\$0.50	\$1.50	200%	\$20,000 (\$3.99 mil property)	\$60,000 (\$3.99 mil property)
\$4 mil - \$5.99 mil	\$0.70	\$2.50	257%	\$42,000 (\$5.99 mil property)	\$150,000 (\$5.99 mil property)
\$6 mil - \$9.99 mil	\$0.90	\$3.50	289%	\$90,000 (\$9.99 mil property)	\$350,000 (\$9.99 mil property)
\$10 mil +	\$1.00	\$4.50	350%	\$100,000 (\$10 mil property)	\$450,000 (\$10 mil property)

For the sale of a condo or single-family residence for which the purchaser is ineligible for a county homeowner's exemption, the conveyance tax is increased at the following rates:

Property Value	Current Rate Per \$100	Proposed Rate: Per \$100	% Tax Increase	Current Tax Rate in Dollars	Proposed Tax Rate in Dollars
\$2 mil - \$3.99 mil	\$0.60	\$2.00	233.33%	\$20,000 (\$3.99 mil property)	\$60,000 (\$3.99 mil property)
\$4 mil - \$5.99 mil	\$0.85	\$3.00	252.94%	\$42,000 (\$5.99 mil property)	\$150,000 (\$5.99 mil property)
\$6 mil - \$9.99 mil	\$1.10	\$4.00	263%	\$90,000 (\$9.99 mil property)	\$350,000 (\$9.99 mil property)
\$10 mil +	\$1.25	\$5.00	300%	\$100,000 (\$10 mil property)	\$450,000 (\$10 mil property)

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 applies whether or not a property is sold at a gain or a loss. This measure penalizes and increases the tax rate for properties near the ocean. HAR believes that it is not good policy to tax different land types at a different rate.

Additionally, 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.

Mahalo for the opportunity to testify.

**SB-1120**

Submitted on: 2/4/2019 7:25:31 PM

Testimony for HOU on 2/7/2019 1:20:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
John Kawamoto	Individual	Support	No

Comments:

**This bill will provide additional funds to address our severe shortage of affordable housing by:**

- 1. Increasing our real estate conveyance tax rates for properties with a value of \$2 million or more, and**
- 2. Removing the \$38 million cap on the distribution of these tax revenues to the Rental Housing Revolving Fund.**

**This will help increase the supply of affordable housing in Hawaii.**

**Real property is our state's most valuable asset, and yet our current real estate conveyance tax rates range from only 0.1% to 1.25%, even on multi-million dollar and luxury properties. By contrast, most consumers pay taxes from 4.5% to 10% for the barest essentials. We should not allow our real estate property to be sold at extraordinary prices while the state captures only 1% or less in tax revenues. There is a direct relationship between the sale of real estate at such high prices and our crises of homelessness and a lack of affordable housing. Those who engage in high-end property transactions should pay a fair rate of taxation, at least comparable to our excise tax, to help address our state's dire housing needs.**

**This bill also removes the conveyance tax cap on the amount that would be paid in the Rental Housing Trust Fund. Removing the cap would provide for additional monies to build affordable rental housing for our low-income families.**

**We need solutions to our affordable housing crisis now!**

**SB-1120**

Submitted on: 2/5/2019 7:02:34 AM

Testimony for HOU on 2/7/2019 1:20:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Margaret ANN Renick	Individual	Support	No

Comments:

Please support this bill. Hawaii residents who don't own homes need all of the help they can get.

Mahalo

**TO :** SENATE COMMITTEE ON HOUSING  
Senator Stanley Chang, Chair  
Senator Dru Mamo Kanuha, Vice Chair

**FROM:** Eldon L. Wegner, Ph.D.

**SUBJECT:** SB 1120 Relating to the Conveyance Tax

**HEARING:** Thursday , February 7, 2019, 1:20 pm  
Conference Room 225, Hawaii State Capitol

**POSITION:** As a member of Faith Action, I am writing as an individual in **strong Support of SB 1120**. The bill would eliminate a current inequity in the conveyance tax by increasing the tax rate on properties of \$2 million or more, eliminating a provision which currently privileges affluent property owners by offering them a significantly lower rate. The bill would also eliminate the cap of \$35 million of revenue distributed to Rental Housing Revolving Fund and increase funds available for affordable housing for low income families.

Real property is our state's most valuable asset. While most property owners pay a conveyance tax from 4.5% to 10%, our current real estate conveyance tax rates range from only 0.1% to 1.25%, on expensive multi-million dollar and luxury properties? There is a direct relationship between the sale of real estate at such high prices and our crises of homelessness and a lack of affordable housing. This bill proposes that people engaging in high-end property transactions pay a fair rate of taxation, at least comparable to our excise tax, to help address our state's dire housing needs.

**We need solutions to our affordable housing crisis now!**

Mahalo. Respectfully submitted by

Eldon L Wegner, PhD.  
2333 Kapiolani Blvd #2413  
Honolulu, HI 96826

**SB-1120**

Submitted on: 2/5/2019 11:28:08 AM

Testimony for HOU on 2/7/2019 1:20:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Richard Tillotson	Individual	Support	No

Comments:

Aloha,

I strongly support this bill and urge you to approve it.

This bill will provide additional funds to address our severe shortage of affordable housing by:

1. increasing our real estate conveyance tax rates for properties with a value of \$2 million or more, and
2. removing the \$38 million cap on the distribution of these tax revenues to the Rental housing Revolving Fund.

This will help address affordable housing needs and the state's treasury.

Real property is our state's most valuable asset, and yet our current real estate conveyance tax rates range from only 0.1% to 1.25%, even on multi-million dollar and luxury properties. By contrast, most consumers pay taxes from 4.5% to 10% for the barest essentials. Why do we allow our real estate property to be sold at extraordinary prices while the state captures only 1% or less in tax revenues? There is a direct relationship between the sale of real estate at such high prices and our crises of homelessness and a lack of affordable housing. Shouldn't people engaging in high-end property transactions pay a fair rate of taxation, at least comparable to our excise tax, to help address our state's dire housing needs?

This bill also removes the conveyance tax cap on the amount that would be paid in the rental housing trust fund. Removing the conveyance tax cap would provide for additional monies to build affordable rental housing for our low-income families.

This is a real solution to our affordable housing crisis. It's also a just tax, a progressive, rather than a regressive one. Please approve this bill!

Thank you for considering my testimony and Mahalo for your service.

**SB-1120**

Submitted on: 2/5/2019 12:40:12 PM

Testimony for HOU on 2/7/2019 1:20:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Valerie Wayne	Individual	Support	No

Comments:

My name is Valerie Wayne, and I urge you to approve this bill.

SB1120 will provide additional funds to address our severe shortage of affordable housing by:

1. increasing our real estate conveyance tax rates for properties with a value of \$2 million or more, and
2. removing the \$38 million cap on the distribution of these tax revenues to the Rental housing Revolving Fund.

This will help address affordable housing needs and the state's treasury.

Real property is our state's most valuable asset, and yet our current real estate conveyance tax rates range from only 0.1% to 1.25%, even on multi-million dollar and luxury properties. By contrast, most consumers pay taxes from 4.5% to 10% for the barest essentials. Why do we allow our real estate property to be sold at extraordinary prices while the state captures only 1% or less in tax revenues? There is a direct relationship between the sale of real estate at such high prices and our crises of homelessness and a lack of affordable housing. Shouldn't people engaging in high-end property transactions pay a fair rate of taxation, at least comparable to our excise tax, to help address our state's dire housing needs?

This bill also removes the conveyance tax cap on the amount that would be paid in the rental housing trust fund. Removing the conveyance tax cap would provide for additional monies to build affordable rental housing for our low-income families.

We need solutions to our affordable housing and homeless crisis now, and SB1120 can help! Mahalo.

Respectfully submitted,

Valerie Wayne

927 Prospect St. #303



Honolulu, HI 96822

**SB-1120**

Submitted on: 2/5/2019 2:02:01 PM

Testimony for HOU on 2/7/2019 1:20:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Sarah Way	Individual	Support	No

Comments:

**To: Senate Committee on Housing**

**Hearing: February 7, 2019, 1:20 pm,**

**Conference Room 225**

**SB1120 Relating to the Conveyance Tax**

**Testimony in Strong Support.**

**My name is Sarah Way. I urge you to approve this bill.**

**This bill will provide additional funds to address our severe shortage of affordable housing by:**

- 1. increasing our real estate conveyance tax rates for properties with a value of \$2 million or more, and**
- 2. removing the \$38 million cap on the distribution of these tax revenues to the Rental housing Revolving Fund.**

**This will help address affordable housing needs and the state's treasury.**

**Real property is our state's most valuable asset, and yet our current real estate conveyance tax rates range from only 0.1% to 1.25%, even on multi-million dollar and luxury properties. By contrast, most consumers pay taxes from 4.5% to 10% for the barest essentials. Why do we allow our real estate property to be sold at extraordinary prices while the state captures only 1% or less in tax revenues? There is a direct relationship between the sale of real estate at such high prices and our crises of homelessness and a lack of affordable housing. Those who engage in high-end property transactions must pay a fair rate of taxation, at least comparable to our excise tax, in order to help address our state's dire housing needs. If they are benefiting from doing business in Hawaii, they should contribute to the community.**

**This bill also removes the conveyance tax cap on the amount that would be paid in the rental housing trust fund. Removing the conveyance tax cap would provide for additional monies to build affordable rental housing for our low-income families.**

**We need solutions to our affordable housing crisis now! Mahalo.**

**Respectfully submitted by**

**Sarah Way**

**3348 Makini Street, Honolulu, HI 96815**

**SB-1120**

Submitted on: 2/5/2019 3:46:35 PM

Testimony for HOU on 2/7/2019 1:20:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Mark K.Wilson III	Individual	Support	No

## Comments:

My name is Mark Wilson. I'm a retired professor of English at the University of Hawaii and a member of Church of the Crossroads and Faith Action for Community Equity. I urge you to approve SB 1120. By increasing our real estate conveyance tax rates for properties with a value of \$2 million or more and removing the \$38 million cap on the distribution of these tax revenues to the Rental Housing Revolving Fund, this bill will help address our affordable housing crisis.

Respectfully submitted,

Mark Wilson, 1634 Makiki St. #603, Honolulu 96822

**SB-1120**

Submitted on: 2/5/2019 10:45:33 PM

Testimony for HOU on 2/7/2019 1:20:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Ashleigh Loa	Individual	Support	Yes

Comments:

**SB-1120**

Submitted on: 2/6/2019 1:10:32 AM

Testimony for HOU on 2/7/2019 1:20:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Linda Rich	Individual	Support	No

Comments:

My name is Linda Rich and I am testifying in Support of this bill that will (1) increase Conveyance Tax on properties of \$2 million or more, and (2) remove the current \$38million cap on revenues flowing to the Rental Housing Revolving Fund (RHRF) for affordable housing.

Sellers of high end properties (many of whom are off-shore investors) are not paying their fair tax share. Our current conveyance tax rates are only 0.50% to 1.25% on multi-million dollar properties. By contrast, our state's poor face the nation's second-largest tax burden, and our residents with low to middle income pay regressive taxes of 4.5% to 10%+ for most of their goods and services.

Hawaii is in a housing crisis. We need affordable housing for working families and local residents. It is unbelievable to me that our laws continue to allow Hawaii real estate to be sold at such high prices with such low tax return, when these high-end sales are fueling our affordable housing crisis. The state has shown it understands this close relationship between real estate sales and affordability, but the progressive tax it has imposed on these conveyances is insufficient. 50% of those tax proceeds are to be used to help address affordable housing needs via the RHRF (which provides low-interest loans and grants to qualified owners and developers of affordable housing).

The State Department of Taxation has calculated (Jan 2019) that the additional funds generated by this tax increase would provide over \$36,000,000 to the RHRF annually, and over \$17,000,000 to the General Fund. These additional tax revenues will help affordable housing and the state's treasury. Hawaii needs these funds! I ask you to pass this bill and increase the resources to help your constituents who're looking to you to find solutions to our housing crisis. Thank you for the opportunity to testify.

**SB-1120**

Submitted on: 2/6/2019 6:33:01 AM

Testimony for HOU on 2/7/2019 1:20:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Deanna Espinas	Individual	Support	No

Comments:

**LATE**

**SB-1120**

Submitted on: 2/6/2019 7:52:32 PM

Testimony for HOU on 2/7/2019 1:20:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Wally Inglis	Individual	Support	No

Comments:

Senator Stanley Chang

Chair, Senate Committee on Housing

Chair Chang and Committee Members:

I strongly support this bill, which would tax higher end real estate and enable developers to provide more low-income housing for Hawaii residents. I also endorse the provision which removes the \$38 million cap on the amount of conveyance tax paid into the Rental Housing Revolving Fund.

I am a member of nonprofit corporations that have developed several hundred units of low-income housing over the past twenty-five years. Without the assistance of the Rental Housing Revolving Fund and other government programs, this would have been impossible.

I urge you to pass out this bill and send it on the Committee on Ways and Means.

Mahalo for the opportunity to testify.

Wally Inglis



**LATE**

SB1120\_Testimony\_Relating to the Conveyance Tax\_Senate Committee on Housing

As a Palolo resident for over 40 years, I strongly support this bill as a way to provide additional revenue for more badly-needed affordable housing by increasing our real estate conveyance tax rate for high value properties of \$2 million or more. It would also be helpful to remove the existing \$38 million cap on the distribution of these tax revenues to the Rental housing Revolving Fund.

It seems especially appropriate that we ask people who can pay \$2 million or more for their property to help compensate for the way the high price they can pay has help raise property values down the line in Hawaii. Paying a fair rate of taxation for their new property, comparable to our excise tax, would help address Hawaii's serious shortage of affordable housing and would not seem to impose an unreasonable burden on the buyer's pocketbook.

Our current real estate conveyance tax rates are low. They range from only 0.1% to 1.25%, even on multi-million dollar and luxury properties. Most consumers pay taxes from 4.5% to 10% for the barest essentials. Why do we allow our real estate property to be sold at extraordinary prices while the state captures only 1% or less in tax revenues?

There is a direct relationship between the sale of real estate at such high prices and our crises of homelessness and a lack of affordable housing.

Thank you for holding this hearing on the bill.

Janet Gillmar

3035 La-I Road

Honolulu 96816