

STAND. COM. REP. NO.

2879

Honolulu, Hawaii

FEB 14 2020

RE: S.B. No. 2694
S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Thirtieth State Legislature
Regular Session of 2020
State of Hawaii

Sir:

Your Committee on Housing, to which was referred S.B.
No. 2694 entitled:

"A BILL FOR AN ACT RELATING TO THE LOW-INCOME HOUSING TAX
CREDIT,"

begs leave to report as follows:

The purpose and intent of this measure is to increase the
number of low-income housing tax credit buyers by exempting state
low-income housing tax credit investors from the federal "at-risk"
and "passive activity loss" rules.

Your Committee received testimony in support of this measure
from Hawaii Housing Finance and Development Corporation; Building
Industry Association of Hawaii; Hawaii Regional Council of
Carpenters; EAH Hawai'i, Inc.; Stanford Carr Development, LLC;
Pacific Resource Partnership; Castle & Cook Hawaii; Hunt Companies
Hawaii; Sugar Creek Capital; Chamber of Commerce Hawaii; Hawai'i
Appleseed Center for Law & Economic Justice; and one individual.
Your Committee received comments on this measure from the
Department of Taxation and Tax Foundation of Hawaii.

Your Committee finds that one of the most important tools for
developing affordable housing is the State's low-income housing
tax credit program. However, the Hawaii low-income housing tax
credit program needs several reforms that would enable it to
produce more low-income rental units at little to no cost to the



State. Your Committee further finds that the program is underutilized because only a limited number of Hawaii taxpayers can take advantage of the program. Currently, only a few dozen large financial institutions and insurance companies can purchase state low-income housing tax credits because state regulations do not specifically exempt Hawaii state low-income housing tax credit investors from rules imposed on federal low-income housing tax credit investors. The unintended consequence is that there are few eligible state low-income housing tax credit buyers, which in turn, results in the credits being valued and sold for a lower price.

Your Committee further finds that exempting state low-income housing tax credit investors from the federal "at-risk" and "passive activity loss" rules would dramatically increase the pool of potential low-income housing tax credit buyers by allowing any Hawaii taxpayer to benefit from purchasing state low-income housing tax credits. This would result by increasing the low-income housing tax credit sales price, which directly translates into millions of more dollars for affordable housing in Hawaii. For these reasons, this measure exempts state low-income housing tax credit investors from the federal "at-risk" and "passive activity loss" rules.

Your Committee received testimony from the Department of Taxation, who recommended amendments that would foreclose potential unintended consequences of the measure as written. Therefore, your Committee has amended this measure by:

- (1) Disallowing the special treatment proposed by this measure if a building ceases to be a qualified low-income housing building;
- (2) Preventing inflation of the depreciable basis by using nonrecourse financing; and
- (3) Making technical, nonsubstantive amendments for the purposes of clarity and consistency.

As affirmed by the record of votes of the members of your Committee on Housing that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 2694, as amended herein, and recommends that it pass Second



Reading in the form attached hereto as S.B. No. 2694, S.D. 1, and
be referred to your Committee on Ways and Means.

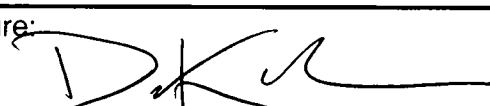
Respectfully submitted on
behalf of the members of the
Committee on Housing,


STANLEY CHANG, Chair



The Senate
Thirtieth Legislature
State of Hawai'i

Record of Votes
Committee on Housing
HOU

Bill / Resolution No.:*	Committee Referral:	Date:		
SB 2694	HOU, WAM	2-13-20		
<input type="checkbox"/> The Committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
CHANG, Stanley (C)	✓			
KANUHA, Dru Mamo (VC)	✓			
MORIWAKI, Sharon Y.	✓			
THIELEN, Laura H.	✓			
FEVELLA, Kurt				✓
TOTAL	4			1
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: 				
Distribution: Original Yellow Pink Goldenrod File with Committee Report Clerk's Office Drafting Agency Committee File Copy				

*Only one measure per Record of Votes