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To: The Honorable Stanley Chang, Chair
and Members of the Senate Committee on Housing

The Honorable, Brian T. Taniguchi, Chair
And Members of the Senate Committee on Labor, Culture, and the Arts

Date: Thursday, February 7, 2019

Time: 1:15 P.M.

Place: Conference Room 225, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: S.B. 742, Relating to Individual Housing Accounts

The Department supports the intent of this measure and provides the following comments regarding S.B. 742 for your consideration. A summary of the key provisions of this measure are as follows:

- Increases the maximum amount that may be contributed to an individual housing account from \$5,000 to \$7,500 annually;
- Increases the maximum amount that may be contributed to an individual housing account in total from \$25,000 to \$75,000;
- Repeals requirement that taxes be paid upon distributions used for the purchase of a first principal residence;
- Requires each employer in the State to provide its employees with an option for the automatic direct deposit of their wages into the employees' individual housing accounts; and
- Effective upon approval and applies to taxable years beginning after December 31, 2019.

The Department notes that it is able to implement the changes proposed by this measure with its current effective date.

Thank you for the opportunity to provide comments.

TAX FOUNDATION OF HAWAII

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SUBJECT: INCOME, Individual Housing Accounts, Increase Caps

BILL NUMBER: SB 742

INTRODUCED BY: S. CHANG, Kanuha

EXECUTIVE SUMMARY: Increases the cap amounts of the tax deduction for individual housing accounts. Repeals requirement for the payment of taxes on distributions used for the purchase of a first principal residence. Requires each employer in the State to provide its employees with an option for the automatic direct deposit of their wages into the employees' individual housing accounts.

SYNOPSIS: Amends section 235-5.5, HRS, to allow an individual contribution to an individual housing account (IHA) of \$7,500. The lifetime cap on IHA deductions is raised to \$75,000.

Also requires each employer in the State to provide its employees with an option for the automatic direct deposit of their wages into the employees' IHAs.

EFFECTIVE DATE: Taxable years beginning after December 31, 2019.

STAFF COMMENTS: Individual housing accounts were established by Act 285, SLH 1982. They were intended to operate like individual retirement accounts, but used for a housing purchase rather than retirement security.

There is no similar provision at the federal level, so the interest in these accounts has been quite limited. In the Department of Taxation's 2002 report "Hawaii Income Patterns – Individuals," it is reported that 83 tax returns took advantage of the IHA deduction, with an average of around \$4,500 taken per tax return. That appears to be last year in which IHA statistics were reported separately.

The idea of reviving IHA accounts does merit discussion, given that federal tax benefits of home ownership were significantly curtailed in the 2017 Tax Cuts and Jobs Act. Specifically, the mortgage interest deduction was limited to the interest on no more than \$750,000 of home acquisition debt, and interest on home equity loans (not used for acquisition) was made entirely nondeductible.

Digested 2/4/2019

SB-742

Submitted on: 2/6/2019 12:16:38 PM

Testimony for HOU on 2/7/2019 1:15:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Melodie Aduja	Testifying for O`ahu County Committee on Legislative Priorities of the Democratic Party of Hawai`i	Support	No

Comments: