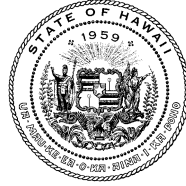


DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



ISAAC W. CHOY
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
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PHONE NO: (808) 587-1540
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To: The Honorable Sylvia Luke, Chair;
The Honorable Ty J.K. Cullen, Vice Chair;
and Members of the House Committee on Finance

From: Isaac W. Choy, Director
Department of Taxation

Date: March 2, 2021
Time: 11:00 A.M.
Place: Via Video Conference, State Capitol

Re: H.B. 1388, H.D. 1, Relating to Taxation

The Department of Taxation (Department) offers the following comments regarding H.B. 1388, H.D. 1, for your consideration.

H.B. 1388, H.D. 1, eliminates home mortgage interest deduction for second homes by de-conforming to the Internal Revenue Code sections 163(h)(4)(A)(i)(II) and 163(h)(4)(A)(ii)(II). H.B. 1388, H.D. 1, has a defective effective date of July 1, 2050, but otherwise applies to taxable years beginning after December 31, 2020.

The Department can implement the elimination of home mortgage interest deduction for second homes for taxable years beginning after December 31, 2020.

Finally, the Department estimates the general fund revenue gain as follows:

General Fund Impact (\$ millions)

FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
9.2	9.6	9.9	10.2	10.5	10.8

Thank you for the opportunity to provide comments.



AMERICANS FOR DEMOCRATIC ACTION

OFFICERS	DIRECTORS			MAILING ADDRESS
John Bickel, President	Melodie Aduja	John Miller	Bill South	P.O. Box 23404
Alan Burdick, Vice President	Juliet Begley	Jenny Nomura	Zahava Zaidoff	Honolulu
Dave Nagajji, Treasurer	Stephanie Fitzpatrick	Stephen O'Harrow		Hawaii 96823
Doug Pyle, Secretary	Jan Lubin	Lyn Pyle		

February 28, 2021

TO: Chair Luke and members of Finance Committee

RE: HB 1388 HD 1 Relating to Taxation

Support for hearing on March 2

Americans for Democratic Action is an organization founded in the 1950s by leading supporters of the New Deal and led by Patsy Mink in the 1970s. We are devoted to the promotion of progressive public policies.

We support HB 1388 HD 1 as it would eliminate the home mortgage interest deduction for second homes under Hawaii income tax law. This law would mostly impact investors of multiple properties. It would eliminate an incentive for housing speculation. As we believe the priority in housing should be for housing, we support this bill. We would be favorable to an amendment to make it means-tested to protect some low-income people relying on a second property for retirement.

Thank you for your favorable consideration.

Sincerely,
John Bickel, President



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: HB 1388, HD1

INTRODUCED BY: House Committee on Economic Development

EXECUTIVE SUMMARY: Eliminates the home mortgage interest deduction for second homes under Hawaii income tax law.

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

EFFECTIVE DATE: 7/1/2050.

STAFF COMMENTS: Section 235-3(a), HRS, explains that it is the intent of the Income Tax Law, “in addition to the essential purpose of raising revenue, to conform the income tax law of the State as closely as may be with the Internal Revenue Code in order to simplify the filing of returns and minimize the taxpayer's burdens in complying with the income tax law. The rules and regulations, forms and procedures adopted and established under this chapter shall conform as nearly as possible, and unless there is good reason to the contrary, to the rules and regulations, forms and procedures adopted and established under the Internal Revenue Code.”

This bill proposes to decouple from the Internal Revenue Code in disallowing a deduction allowable for federal purposes. The issue before this body is whether the incremental revenue raised by doing so justifies the added compliance costs and complexity.

Digested 2/27/2021

March 2, 2021

The Honorable Sylvia Luke, Chair
House Committee on Finance
Via Videoconference

Aloha Chair Luke, Vice Chair Cullen, and Members of the Committee,

I am Ken Hiraki, Director of Government Affairs, testifying on behalf of the Hawai'i Association of REALTORS® (“HAR”), the voice of real estate in Hawai'i, and its over 10,000 members. HAR **opposes** House Bill 1388, HD1, which eliminates the home mortgage interest deduction for second homes under Hawai'i income tax law.

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 and housing.

Mahalo for the opportunity to testify.



March 2, 2021

11:00 a.m.

VIA VIDEOCONFERENCE

Conference Room 308

To: House Committee on Finance

Rep. Sylvia Luke, Chair

Rep. Ty J.K. Cullen, Vice Chair

From: Grassroot Institute of Hawaii

Joe Kent, Executive Vice President

RE: HB1388 HD1 — RELATING TO TAXATION

Comments Only

Dear Chair and Committee Members:

The Grassroot Institute of Hawaii would like to offer its comments on [HB1388](#), which would eliminate the home mortgage interest deduction for second homes under Hawaii income tax law.

We are gravely concerned about the impact of this tax hike and the many tax increases and surcharges that have been proposed this legislative session. Hawaii residents are already among the most taxed in the country; the state has the [second highest overall tax burden](#) in the U.S.

That high tax burden contributes to Hawaii's cost of living and is one of the reasons why so many Hawaii residents have been leaving in search of greater opportunities elsewhere.

Given the state's already-high tax burden, there is never a good time to raise taxes. But this proposal comes at an especially bad time. The state is still in a state of emergency, tourism has slowed to a trickle, businesses are closing and unemployment is high. The economy will take years to recover from the pandemic and lockdowns. The last thing Hawaii residents and businesses need at this point is a tax hike.

There are myriad reasons policy makers should be wary of implementing tax hikes at this time. Here are just a few:

>> Hawaii cannot sustain a hike in taxes since its already-damaged economy was hit harder by the lockdowns than any other state in the nation.¹

>> State lawmakers increased taxes and fees substantially following the Great Recession of 2007-2008,² despite a windfall in revenues from an economic boom over the past decade. Taxes and fees ballooned on motor vehicles, transient accommodations, estates, fuel, food, wealthy incomes, property, parking and businesses.

>> Hawaii's population reduction of 21,879 people since fiscal 2016³ has left Hawaii's remaining taxpayers with a greater tax burden.

>> Hawaii businesses are already bracing for an automatic tripling, on average, of the state unemployment tax.⁴ The UI tax rate depends not only on individual employer's claims experiences but also on the overall health of the state's unemployment insurance fund, which is hundreds of millions of dollars in the red.⁵

>> Hawaii already has a regressive general excise tax that disproportionately hits the poor.⁶

>> Hawaii has a progressive income tax that taxes high-income earners at 11%, second only to California at 13.3%.⁷ Hawaii's top 1% already pays 23% of all income taxes in the state.⁸

¹ Dave Segal, "[Hawaii's unemployment rate hit nation-high 15% in September](#)," Honolulu Star-Advertiser, Oct. 20, 2020.

² "[Tax Acts \(by Year\)](#)," Tax Foundation of Hawaii, accessed Feb. 8, 2021.

³ "[Annual Estimates of the Resident Population for the United States, Regions, States, and the District of Columbia: April 1, 2010 to July 1, 2020 \(NST-EST2020\)](#)" U.S. Census Bureau, Population Division, December 2020.

⁴ "[State unemployment tax slated to automatically triple in 2021](#)," Grassroot Institute of Hawaii, Nov. 16, 2020.

⁵ "[UI Budget](#)," United States Department of Labor, Employment & Training Administration, Feb. 8, 2021.

⁶ "Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index: "[Sales Tax Burden](#)," American Legislative Exchange Council, 2021. Note that Hawaii does not have a sales tax, but a state general excise tax that is levied on almost all goods and services, and imposed multiple times throughout the production chain.

⁷ Katherine Loughhead, "[State Individual Income Tax Rates and Brackets for 2020](#)," Tax Foundation, Feb. 4, 2020.

⁸ "[Hawaii Individual Income Tax Statistics](#)," Hawaii Department of Taxation, December 2020, Table 13A.

>> Closing tax exemptions would amount to a tax hike for Hawaii businesses already facing a steep spike in their unemployment insurance taxes.

>> Increasing Hawaii's lowest-in-the-nation property-tax rates⁹ would result in a much higher overall tax bill compared to other states because Hawaii residents uniquely pay for public education through the general fund as opposed to property taxes.¹⁰ Additionally, Hawaii's low property taxes are balanced out by the highest housing costs in the nation,¹¹ which results in a \$1,236 average annual property tax per capita, which is only slightly below the national average of \$1,617.¹²

Hawaii needs leadership that will stabilize the current financial crisis, reduce unsustainable long-term costs and lower the cost of living. Balancing the books without tax increases or future debt could send a message that Hawaii is a good place for businesses and future generations, and this could help the economy thrive while motivating people to return to the islands.

If the state needs more revenues, policymakers should focus on growing the economy. In our current condition, even small economic gains would have big effects.

If the purpose of the tax is to alter behavior, consider that the negative impact of a tax hike can far outweigh whatever policy goal is being pursued.

Hawaii's residents and businesses need a break from new taxes, fees, surcharges and tax hikes. This is not the time to make Hawaii a more expensive place to live and do business.

Thank you for the opportunity to submit our comments.

Sincerely,

Joe Kent
Executive Vice President,
Grassroot Institute of Hawaii

⁹ John Keirnan, "[Property Taxes by State](#)," WalletHub, Feb. 25, 2020.

¹⁰ Janis Magin, "[Hawaii lawmakers seek to add new property tax to fund teacher pay](#)," Pacific Business News, Jan. 27, 2020.

¹¹ "[Average House Price by State in 2020](#)," The Ascent, Aug. 4, 2020.

¹² Janelle Cammenga, "[How Much Does Your State Collect in Property Taxes per Capita?](#)," Tax Foundation, March 11, 2020.

HB-1388-HD-1

Submitted on: 2/28/2021 9:45:21 AM

Testimony for FIN on 3/2/2021 11:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Frank Schultz	Individual	Oppose	No

Comments:

With the devastation caused by the lockdowns, we the citizens, do not need to be punished for the short-sighted ineffective policies of this administration.

HB-1388-HD-1

Submitted on: 2/28/2021 6:19:20 PM

Testimony for FIN on 3/2/2021 11:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Bob Bainum	Individual	Oppose	No

Comments:

no