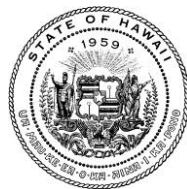


JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION

Ka 'Oihana 'Auhau
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GARY S. SUGANUMA
DIRECTOR

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

**TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

TESTIMONY ON THE FOLLOWING MEASURE:

H.B. No. 2787, Relating to the Individual Housing Account Program.

BEFORE THE:

House Committee on Housing

DATE: Friday, February 9, 2024

TIME: 10:00 a.m.

LOCATION: State Capitol, Room 312

Chair Evslin, Vice-Chair Aiu, and Members of the Committee:

The Department of Taxation ("Department") offers the following comments regarding H.B. 2787 for your consideration.

Section 2 of H.B. 2787 amends section 235-5.5, Hawaii Revised Statutes (HRS), to increase the maximum income tax deduction for contributions to an Individual Housing Account (IHA), by increasing the maximum amount of annually deductible contributions from \$5,000 to \$20,000 for single filers, and from \$10,000 to \$40,000 for joint filers; the aggregate deduction limitation per taxpayer for all taxable years also increases from \$25,000 to \$200,000, not including interest paid or accrued.

Section 3 of H.B. 2787 directs the Department to promptly create and implement awareness programs and materials to educate the public about the IHA program, its eligibility requirements, and other information or helpful resources. Section 5 of the bill appropriates an unspecified amount for fiscal year 2024 to 2025 for the Department to create and implement the public awareness program.

The measure applies to taxable years beginning after December 31, 2024.

Department of Taxation Testimony
H.B. 2787
February 9, 2024
Page 2 of 2

The Department is able to administer this bill as drafted. Thank you for the opportunity to provide comments on this measure.

Feb. 9, 2024, 10 a.m.
Hawaii State Capitol
Conference Room 312 and Videoconference

To: House Committee on Housing

Luke Evslin, Chair
Micah Aiu, Vice-Chair

From: Grassroot Institute of Hawaii

Ted Kefalas, Director of Strategic Campaigns

COMMENTS IN SUPPORT OF HB2787 — RELATING TO THE INDIVIDUAL HOUSING ACCOUNT PROGRAM

Aloha Chair Evslin, Vice-Chair Aiu and Committee Members,

The Grassroot Institute of Hawaii would like to offer its support for [HB2787](#), which would quadruple the amount of money that an individual or couple could add to their tax-deductible “individual housing account” under the state’s Individual Housing Account Program. The bill would also direct the state Department of Taxation to raise awareness about these accounts.

The Individual Housing Account Program lets prospective first-time homebuyers deduct a certain amount of money from their gross income for the purposes of saving for and buying a house. Whatever money they place in an individual housing account is not taxed when it enters the account.

For individuals, the current annual limit is \$5,000, and for couples it’s \$10,000. This bill would increase those annual limits to \$20,000 and \$40,000, respectively.

Likewise, the bill would increase the total amount of money that an individual or couple could deduct for all tax years — from \$25,000 to \$200,000.

Under current law, once a home is purchased, the homebuyer must pay income tax on the money they used from the housing account. Further, 10% of that money is added to the homebuyer’s gross income for tax purposes for the next 10 years.

So, just to be clear, the program does not exempt money used to buy a home from the income tax, but it does offer prospective homebuyers an attractive way to save up for a down payment on the front end and repay their tax liabilities later on.

In any case, updating this clause is long overdue. These amounts have not been increased since the program was launched in 1982.¹

Two years before, in 1980, the median home price in Honolulu was a mere \$158,800.² With the median home price now hovering around \$1 million, it is clear these figures should be increased significantly.

Thank you for the opportunity to testify.

Ted Kefalas
Director of Strategic Campaigns
Grassroot Institute of Hawaii

¹ [“OHA-6: HB1746/SB2135 Individual Housing Account Tax Incentives,”](#) Office of Hawaiian Affairs, 2018, p. 1.

² [“The State of Hawaii Data Book 2000,”](#) Hawaii Department of Business, Economic Development and Tourism, p. 462.



MAUI

CHAMBER OF COMMERCE

VOICE OF BUSINESS

HEARING BEFORE THE HOUSE COMMITTEE ON
HOUSING
HAWAII STATE CAPITOL, HOUSE CONFERENCE ROOM 312
Friday, February 9, 2024 AT 10:00 A.M.

To The Honorable Luke A. Evslin, Chair
The Honorable Micah P.K. Aiu, Vice Chair
Members of the Committee on Housing

SUPPORT HB2787 RELATING TO THE INDIVIDUAL HOUSING ACCOUNT PROGRAM

The Maui Chamber of Commerce wholeheartedly **SUPPORTS HB2787**.

Housing is a top priority for the Maui Chamber of Commerce and continues to be so as the crisis escalates following the wildfires and it directly impacts businesses and our economic revitalization. Before the wildfires, we needed over 10,000 units by 2025, but that number has only increased as 3% of our housing was lost in Lahaina. This is one of the main factors in the ever-increasing pricing of housing.

The Chamber feels that increasing the amount an individual can contribute, annually, from \$5,000 to \$20,000 to their Individual Housing Account is warranted given today's housing prices. We also agree with increasing the lifetime maximum, that can be contributed, from \$25,000 to \$200,000 reflect the reality of the current housing price environment.

This proposal will assist those who choose to save for a down payment for purchasing their first home. The added fact that the contributions are an allowable deduction on their taxes will help the individual afford to contribute more to their account.

This is another excellent tool in the toolbox for housing and a bill that should be fast-tracked.

For these reasons, we **support HB2787**.

Sincerely,

Pamela Tumpap
President

To advance and promote a healthy economic environment for business, advocating for a responsive government and quality education, while preserving Maui's unique community characteristics.



MAUI

CHAMBER OF COMMERCE

VOICE OF BUSINESS

To advance and promote a healthy economic environment for business, advocating for a responsive government and quality education, while preserving Maui's unique community characteristics.

HB-2787

Submitted on: 2/7/2024 5:14:30 PM

Testimony for HSG on 2/9/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Cindy R Ajimine	Individual	Support	Written Testimony Only

Comments:

I am in SUPPORT of this bill. Lack of affordable housing, the appaling rise in kupuna homelessness and the tragic resulting consequences will be positively impacted by the passing and correct implementation of this bill. Mahalo!

HB2787: RELATING TO THE INDIVIDUAL HOUSING ACCOUNT PROGRAM

House Committee on Housing

Feb. 9, 2024; 10:00 am

I am a public interest attorney and lecturer in law in Affordable Housing. I offer this testimony to **SUPPORT WITH AMENDMENTS** HB2787, a measure that updates our Individual Housing Account (IHA) statute.

Currently, savings in IHAs administered by traditional banks can qualify for an adjusted gross income (AGI) deduction, up to a certain limit, for state income tax and certain income-based social safety net purposes. Notably, account holders for such IHAs do not necessarily receive financial literacy training or savings match incentives. Meanwhile, IHAs administered by community development financial institution (CDFI) service providers, who do provide concurrent financial literacy and savings match incentives, currently do not qualify for an AGI deduction. In addition, there is no AGI deduction for savings in rental IHAs, specifically designed to help individuals and families secure a rental unit. **HB2787 could be strengthened by adding language that would allow savings in CDFI-administered IHAs, including rental IHAs, to qualify for an AGI deduction, as well as allowing deductions for rental housing deposits.** I have attached here suggested amendments, which are from HB1786(2018)¹.

Notably, every dollar of income not taxed under this plan will go into a regulated and monitored savings account and will be cycled into the local housing market in the short term; deducted savings used for anything other than the purchase or rental of a primary residence would be subject to penalties. Accordingly, the IHA tax is a highly targeted, low-cost method of stabilizing Hawai'i's middle class, encouraging and directly supporting asset-building and housing security for our residents and their families.

Mahalo for the opportunity to testify in support.

Deja Ostrowski, Esq.

SUGGESTED AMENDMENTS:

(b) There shall be allowed as a deduction from gross income the amount, not to exceed \$2,500, paid in cash during the taxable year by an individual taxpayer to an individual housing account established for the individual's benefit to provide funding to obtain rental

¹ See HB1786 (2018) available at:

https://www.capitol.hawaii.gov/session/archives/measure_indiv_Archives.aspx?billtype=HB&billnumber=1746&year=2018

housing. No deduction shall be allowed on any amounts distributed more than twenty-four months from the date on which the first contribution is made to the account. The interest paid or accrued within the taxable year on the account shall not be included in the individual's gross income.

For the purposes of this section, the term "rental housing" means a unit that is leased, rented, or occupied by the individual or tenant for whom the deduction will apply.

(6) A custodial account that is not a trust shall be treated as a trust for purposes of this section if:

- (A) The assets of the custodial account are held by a bank, savings and loan association, credit union, depository financial services loan company, or community development financial institution that administers the custodial account consistent with the requirements of this section; and
- (B) The custodial account would otherwise constitute an individual housing account;

provided that the custodian of a custodial account treated as a trust under this paragraph shall be treated as the trustee of the account.

HB-2787

Submitted on: 2/7/2024 10:16:53 PM

Testimony for HSG on 2/9/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Catherine Collado	Individual	Support	Written Testimony Only

Comments:

I am in support of HB2787. The young adults who desire to live in Hawaii are not able to afford to live here, let alone purchase any property. We need to do all we can to provide opportunities to help the next generations succeed in affording to buy a home in Hawaii, and live amongst family and friends. I have two adult children. One lives in another state and the remaining one who lives here has been renting a room in a house for over 10 years now. They each are unable to purchase a home. Bills like this and efforts like this might give some a chance to afford to buy a home and live in Hawaii. Thank you.

HB-2787

Submitted on: 2/7/2024 11:13:56 PM

Testimony for HSG on 2/9/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Vernelle Oku	Individual	Support	Written Testimony Only

Comments:

I support this bill.

Thank you for helping the people of Hawaii purchase their own home!

HB-2787

Submitted on: 2/8/2024 12:11:47 AM

Testimony for HSG on 2/9/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Brett Kulbis	Individual	Support	Written Testimony Only

Comments:

I support HB-2787.

HB-2787

Submitted on: 2/8/2024 1:18:32 AM

Testimony for HSG on 2/9/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Scott Shedko	Individual	Support	Written Testimony Only

Comments:

I support this bill!

HB-2787

Submitted on: 2/8/2024 9:27:26 AM

Testimony for HSG on 2/9/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
SUSAN MORRIS	Individual	Oppose	Written Testimony Only

Comments:

I oppose HB2787

HB-2787

Submitted on: 2/8/2024 12:35:49 PM

Testimony for HSG on 2/9/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Cory Asuncion	Individual	Support	Written Testimony Only

Comments:

I SUPPORT THIS BILL. Truly I believe in educating and public awareness in individuals housing accounts. We the people of Hawaii needs to have some type of support of advices on how to own a home or manage a home. Now the people can only dream because it's to expensive

HB-2787

Submitted on: 2/8/2024 4:59:50 PM

Testimony for HSG on 2/9/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Courtney Spencer	Individual	Support	Written Testimony Only

Comments:

Aloha Chair Evslin, Vice Chair Aiu, and Members of the Committee,

I am writing in support of HB2787. The affordable housing crisis along with the high cost of living within the Hawaiian Islands has put a strain on homeownership. Personally, speaking from a place of limited saving ability due to astronomical rental rates and food cost alone, the ability to save enough to own a home in Hawai'i is a pipedream. Updating the Individual Housing Account statute to better reflect the current cost of housing down-payments would greatly benefit first-time homebuyers and in turn pave a path towards a more profitable housing market.

Thank you for the opportunity to testify,

Courtney Spencer