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

**TESTIMONY ON THE FOLLOWING MEASURE:**

S.B. No. 1462, S.D.2, Relating to Limited-Profit Housing Associations

**BEFORE THE:**

House Committee on Housing

**DATE:** Wednesday, March 15, 2023

**TIME:** 9:00 a.m.

**LOCATION:** State Capitol, Room 312

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

The Department of Taxation ("Department") offers the following comments regarding S.B. 1462, S.D.2, for your consideration.

S.B. 1462, S.D.2, seeks to establish an organizational and regulatory framework for limited-profit housing associations to develop long-term affordable housing in Hawaii. This bill has a defective effective date of July 1, 2050, with Part II of the bill effective on January 1, 2024.

Part I of the bill adds a new section to chapter 201, Hawaii Revised Statutes (HRS), to establish a "Limited-Profit Housing Council" ("Council") within the Department of Business, Economic Development and Tourism (DBEDT) to oversee and administer the establishment and governance of limited-profit housing associations in Hawaii. The bill establishes that DBEDT is to provide administrative support to the Council, and is provided an exempt administrator position that is responsible for the day-to-day operations of the Council. The bill directs that the Council be co-chaired by the Executive Director of the Hawaii Housing Finance and Development Corporation and the Executive Director of the Hawaii Public Housing Authority. Other members include the director of DBEDT; the attorney general; the director of taxation; the chairs of the standing committees with jurisdiction over housing of the senate and the house of representatives; and a representative from each of the four counties; or their designees.

Part II of the bill creates a new HRS chapter to be entitled "Limited-Profit Housing

Associations” (LPHA) which establishes the LPHA and authorizes a designation and code of conduct for an association to offer entrepreneurs and investors a sustainable option to develop long-term affordable housing in Hawaii. This section further establishes the responsibilities of the LPHA as they relate to assets management, affordable housing price standards, and asset management responsibilities.

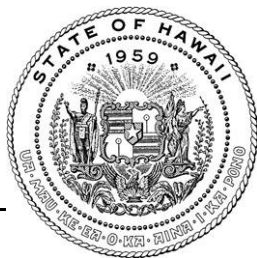
Section 3 of the bill creates a new section in chapter 235, HRS, to exclude from the income tax, all ordinary income earned by LPHA. However, any income that is not used by the LPHA within five years for the primary business activities of the LPHA will then be subject to the income tax.

Section 4 of the bill amends section 23-94(c), HRS, to add the new section in chapter 235, HRS, to the list of credits and exclusions to be reviewed by the Legislative Auditor in 2027 and every fifth year thereafter.

Section 5 of the bill provides an exemption from the conveyance tax, for any transfers of interest in real property to or from an LPHA.

The Department will be able to implement the tax provisions in Part II of the bill by the current effective date.

Thank you for the opportunity to provide comments on this measure.



**DEPARTMENT OF BUSINESS,  
ECONOMIC DEVELOPMENT & TOURISM**  
KA 'OIHANA HO'OMOHALA PĀ'OIHANA, 'IMI WAIWAI  
A HO'OMĀKA'IKĀ'I

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Statement of  
**CHRIS J. SADAYASU**  
Director

Department of Business, Economic Development, and Tourism  
before the  
**HOUSE COMMITTEE ON HOUSING**

Wednesday, March 15, 2023  
9:00 AM  
State Capitol, Conference Room 312

In consideration of  
**SB1462, SD2**  
**RELATING TO LIMITED-PROFIT HOUSING ASSOCIATIONS.**

Chair Hashimoto, Vice Chair Aiu, and Members of the Committee.

The Department of Business, Economic Development and Tourism (DBEDT) offers **comments** on SB1462, SD2, which establishes an organizational, tax, and regulatory framework for limited-profit housing associations.

The limited profit-housing council would oversee and administer the establishment and governance of limited-profit housing associations in the State. As the creation of long-term affordable housing is one of the Department's key objectives, we will collaborate with the Committee and provide administrative support as the Legislature sees fit, should it be determined that the limited profit-housing council will be established within DBEDT.

Thank you for the opportunity to comment on this measure.

**SB-1462-SD-2**

Submitted on: 3/13/2023 10:09:17 AM

Testimony for HSG on 3/15/2023 9:00:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Testify</b>
Will Caron	Individual	Support	Written Testimony Only

Comments:

Please support SB1462 SD2.