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To: The Honorable Stanley Chang, Chair;
The Honorable Dru Mamo Kanuha, Vice Chair;
and Members of the Senate Committee on Housing

From: Isaac W. Choy, Director
Department of Taxation

Date: February 2, 2021
Time: 1:00 P.M.
Place: Via Video Conference, State Capitol

Re: S.B. 26, Relating to Individual Housing Accounts

The Department of Taxation (Department) offers the following comments regarding S.B. 26 for your consideration. This measure establishes the individual housing accounts (IHA) savings program, sets up a board to administer the program and its associated administrative fund. It also allows individual housing accounts to be set up for dependent children and expands the authorized uses for funds in an individual housing accounts and imposes a ten per cent penalty on distributions taken within 365 days from the date the contribution was made. S.B. 26 is effective on July 1, 2021.

First, the Department notes that the limitation on the amount of deduction (\$5,000 for single filers and \$10,000 for joint filers) applies to IHAs established for dependents. The Department suggests clarifying how this cap on deductions applies to dependents and the taxpayer themselves. For example, if joint filing taxpayers establish an IHA for themselves and two additional IHAs for their minor children, is the deduction limit \$10,000 per IHA or \$10,000 total for all three IHAs? The Department also suggests clarifying how the \$25,000 lifetime cap applies to these types of circumstances.

Second, the measure allows for disbursements to be made in cases where there is “economic hardship,” but the term is not defined in the measure. The Department strongly suggests defining this term as there are many ways to define it.

Third, the measure imposes a ten percent penalty on withdrawals from an account made within 365 days that the contribution was made. It is not clear whether this is from the date the

first contribution was made, the last contribution made, or some other date. The Department suggests clarification on the application of this penalty provision.

Fourth, the Department suggests including income limits in order to qualify for the IHA contribution deduction. This will help to direct the IHA program towards the taxpayers that need the assistance.

Finally, the Department requests that the tax provisions of S.B. 26 be made applicable to taxable years beginning after December 31, 2021 to allow the Department sufficient time to make the necessary form, instruction, and computer system changes.

Thank you for the opportunity to provide comments.

TAX FOUNDATION OF HAWAII

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SUBJECT: INCOME, Individual Housing Accounts

BILL NUMBER: SB 26

INTRODUCED BY: CHANG, KEOHOKALOLE, LEE, MISALUCHA, Baker, Gabbard, San Buenaventura, Taniguchi

EXECUTIVE SUMMARY: Increases the cap amounts of the tax deduction for individual housing accounts. Authorizes certain funds from an individual housing account to be used to obtain rental housing. Authorizes the accounts to be placed in a community development financial institution. The concept of reviving the IHA does appear to merit discussion given the curtailment of the mortgage interest deduction at the federal level.

SYNOPSIS: Adds a new chapter to the HRS to establish the Individual Housing Accounts Savings Program.

Amends HRS section 235-5.5(a) to allow funds in an IHA to provide assistance during economic hardships, for capital improvements for homeownership, cemetery and mortuary services, or senior housing. Imposes a 10% penalty on any amounts distributed less than 365 days from date of contribution.

Adds a new HRS section 235-5.5(b) providing that an individual is allowed a deduction of up to \$_____ contributed per year to an account that would provide funding for the first month's rent or a rental deposit on a dwelling place that is to be used by the individual or the individual's immediate family as the principal residence, or to provide funding for down payment assistance or closing costs on a principal residence. Provides that no deduction shall be allowed on any amounts distributed within twenty-four months from the date on which the first contribution is made to the account, and that interest paid or accrued within the taxable year on the account shall not be included in the individual's gross income.

Provides that if the individual for whose benefit the individual housing account was established uses the account as provided by this subsection with the distribution from the individual housing account, the individual shall report _____ the total distribution from the individual housing account used to obtain the rental housing or provide down payment assistance or closing costs as gross income in the taxable year in which the distribution is completed and in each taxable year thereafter until all of the distribution has been included in the individual's gross income.

Also allows for an IHA to be established for the benefit of a minor. Contributions to the IHA on behalf of a child would be deductible by the taxpayer (presumably the parent) until the child reaches age ____.

Males technical and conforming amendments elsewhere in the section.

EFFECTIVE DATE: July 1, 2021.

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 1/29/2021



Testimony to the Senate Committee on Housing
February 2, 2021, 1:00 pm
Hawaii State Capitol, Via Videoconference

Comments on SB 26, Relating to Individual Housing Accounts

To: The Honorable Stanley Chang, Chair
The Honorable Dru Mamo Kanuha, Vice-Chair
Members of the Committee

My name is Stefanie Sakamoto, and I am testifying on behalf of the Hawaii Credit Union League, the local trade association for 51 Hawaii credit unions, representing over 800,000 credit union members across the state. We offer the following comments on SB 26, Relating to Individual Housing Accounts.

While we understand and appreciate the intent of this bill, there are unanswered questions as to the administration of this concept. Opening the account would not be the issue; the question would be who would have the responsibility of “policing” the account if/when the funds are withdrawn. There would have to be safeguards or specific triggers in place to ensure that the funds from an IHA are not spent in an unauthorized manner. Further, it is unclear how the funds would need to be treated when applying them towards a mortgage loan, senior housing agency, or mortuary service. We would suggest that amendments be made to reduce the burden on the “trustees”, which would be the financial institutions holding the accounts.

Thank you for the opportunity to provide comments.

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To: Senate Committee on Housing

From: Cheryl Kakazu Park, Director

Date: February 2, 2021, 1:00 p.m.
Via Videoconference

Re: Testimony on S.B. No. 26
Relating to Individual Housing Accounts

Thank you for the opportunity to submit testimony on this bill, which would establish an individual housing accounts savings program and an Individual Housing Savings Accounts Board. The Office of Information Practices (OIP) takes no position on the substance of this bill, but **offers an amendment** regarding the confidentiality provision for individual account information at proposed section ____-6.

The confidentiality provision would make individual housing account information fully confidential, except as needed to administer the program or with the individual's consent. While protecting individually identifiable information is consistent with the Uniform Information Practices Act, chapter 92F, **OIP would recommend that the provision be amended to also specifically allow for disclosure of aggregated statistical information regarding the program.** OIP recommends adding the following additional exception to the exceptions to confidentiality (listed at the top of bill page 9) for administration of the program and for disclosure based on written consent:

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February 2, 2021
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“Except for disclosure of aggregated statistical information that cannot be identified to any one account or individual.”

Thank you for the opportunity to testify.

SB-26

Submitted on: 1/31/2021 5:48:46 PM

Testimony for HOU on 2/2/2021 1:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Glenn Nagao	Individual	Support	No

Comments:

I writingin support of SB26.

It appears to be the equivalent of a 529 program for home buyers. I appreciate that it encourages home buyers to save and incentives them by offering tax deferred plan to do so.

DAVID Y. IGE
GOVERNOR



CRAIG K. HIRAI
DIRECTOR

ROBERT YU
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
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ADMINISTRATIVE AND RESEARCH OFFICE
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MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

WRITTEN ONLY
TESTIMONY BY CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON HOUSING
ON
SENATE BILL NO. 26

February 2, 2021
1:00 p.m.
Room 225

RELATING TO INDIVIDUAL HOUSING ACCOUNTS

Senate Bill No. 26: establishes the Individual Housing Accounts Savings Program (Program) and Individual Housing Accounts Savings Board (Board) within the Department of Budget and Finance (B&F); requires the Board to adopt administrative rules for the Program; requires the Board to submit annual reports to the Legislature detailing the Board's activities for the previous fiscal year; allows taxpayers to open an Individual Housing Account (IHA) in the name of a dependent upon birth; authorizes the use of an IHA to provide assistance during economic hardships or for capital improvement for homes, cemetery and mortuary services, or senior housing; requires a taxpayer to pay a penalty of 10% of any amounts distributed before one year from the date the amounts were made as a contribution; authorizes the establishment of an IHA to make payments for the first month's rent or closing cost on a dwelling; includes community development financial institutions as authorized trustees of IHAs; establishes the Individual Housing Accounts Savings Administrative Fund

(Administrative Fund); and appropriates unspecified amounts of general and special funds in both FY 22 and FY 23 for the Board's administrative and operating expenses.

B&F appreciates the intent of this measure, but notes that according to data provided by the Department of Taxation, IHAs are not widely utilized by the public despite being offered by some financial institutions. Therefore, it may be difficult for the program to garner enough participants to be able to achieve economies of scale. Consequently, B&F strongly recommends that the Legislature have the Legislative Reference Bureau conduct a thorough analysis of the program as proposed in this bill to fully understand the costs, benefits and feasibility of implementation.

Thank you for your consideration of our comments.