

Honolulu, Hawaii

FEB 17 2023

RE: S.B. No. 884
S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Thirty-Second State Legislature
Regular Session of 2023
State of Hawaii

Sir:

Your Committee on Commerce and Consumer Protection, to which was referred S.B. No. 884 entitled:

"A BILL FOR AN ACT RELATING TO LEASEHOLD CONVERSION,"

begs leave to report as follows:

The purpose and intent of this measure is to, for taxable years 2023-2029, exclude from taxation one hundred per cent of the gain realized by a fee simple owner from the sale of a leased fee interest in units within a condominium project, cooperative project, or planned unit development to the association of apartment owners or the residential cooperative housing corporation of the leasehold units.

Your Committee received testimony in support of this measure from Hawaii Council of Associations of Apartment Owners and five individuals. Your Committee received comments on this measure from the Department of Taxation and Tax Foundation of Hawaii.

Your Committee finds that, in 2007, the legislature enacted Act 166, Session Laws of Hawaii 2007 (Act 166), which provides an income tax exemption of one hundred percent of capital gains realized by a fee simple owner during taxable years 2008-2012 from the sale of a leased fee interest in units within a condominium project, cooperative project, or planned unit development to the association of apartment owners or residential cooperative corporations of the leasehold units. The purpose of Act 166 was




to encourage landowners to sell condominium lessees the fee interest in their units, and thereby promote the long-term stability in Hawaii's condominium housing market. However, Act 166 repealed on December 31, 2012. Your Committee finds that many condominium units are still held in leasehold. Accordingly, this measure reestablishes an income tax exemption of one hundred percent of capital gains realized from sales of leased fee interest in certain residential units.

Your Committee has amended this measure by:

- (1) Inserting an effective date of July 1, 2050, to encourage further discussion; and
- (2) Making technical, nonsubstantive amendments for the purposes of clarity and consistency.

As affirmed by the record of votes of the members of your Committee on Commerce and Consumer Protection that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 884, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 884, S.D. 1, and be referred to your Committee on Ways and Means.

Respectfully submitted on
behalf of the members of the
Committee on Commerce and
Consumer Protection



JARRETT KEOHOKALO, Chair



