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WRITTEN ONLY
TESTIMONY BY LUIS P. SALAVERIA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT
ON
HOUSE BILL NO. 886, H.D. 1

February 15, 2023
10:30 a.m.
Room 423 and Videoconference

RELATING TO TAXATION

The Department of Budget and Finance (B&F) offers comments on this bill.

House Bill No. 886, H.D. 1, proposes to eliminate the home mortgage interest deduction for second homes for individual income tax purposes. It also requires B&F, in consultation with the Department of Taxation, to submit a report on administration of the Act to the Legislature for the 2024 through 2028 regular sessions.

B&F notes that there appears to be no need for the report under Section 3 of the bill. Previously, the description of the bill stated: “[r]equires the amount of state revenue gained by eliminating the deduction to be deposited into the Rental Housing Revolving Fund.” However, the description has been amended to eliminate that statement. Consequently, this a straight tax law change that does not appear to warrant a report on its implementation for five years.

Thank you for your consideration of our comments.

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DEPARTMENT OF TAXATION

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

TESTIMONY ON THE FOLLOWING MEASURE:

H.B. No. 886, H.D. 1, Relating to Taxation

BEFORE THE:

House Committee on Economic Development

DATE: Wednesday, February 15, 2023

TIME: 10:30 a.m.

LOCATION: State Capitol, Room 423

Chair Holt, Vice-Chair Lamosao, and Members of the Committee:

The Department of Taxation ("Department") offers the following comments regarding H.B. 886, H.D. 1, for your consideration.

H.B. 886, H.D. 1, eliminates the home mortgage interest deduction for second homes by exempting Hawaii from conforming to Internal Revenue Code sections 163(h)(4)(A)(i)(II) and 163(h)(4)(A)(ii)(II). The bill has a defective effective date of June 30, 3000 with a repeal date of July 1, 2028.

The Department notes that it will be able to implement this bill for taxable years beginning after December 31, 2022.

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

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

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SUBJECT: INCOME, Disallows Home Mortgage Interest Deduction for Second Homes

BILL NUMBER: HB 886 HD 1

INTRODUCED BY: House Committee on Housing

EXECUTIVE SUMMARY: Eliminates the home mortgage interest deduction for second homes under Hawai'i 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: June 30, 3000; repeals on July 1, 2028.

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.

As an example of this complexity, consider that Hawaii requires certain deduction limits including the so-called Pease limitation in IRC section 68. (The section 68 limitations operate for federal purposes, but at different thresholds; the State thresholds are those that were used by the IRS in calendar year 2009.) IRC section 68 reduces itemized deductions by 3% of the excess of the taxpayer's AGI over the threshold, up to 80% of the amount of itemized deductions otherwise allowable. For Hawaii income tax purposes, HRS section 235-2.4(c) provides that the threshold is \$166,800 for all taxpayers except married taxpayers filing separately, for which it is \$83,400. For higher income taxpayers, against whom this provision is probably directed, the Pease limitation will be considerable. Such taxpayers will probably be claiming other itemized deductions as well, so there will be issues arising as to which deductions were limited by the Pease provision and to what extent. Further, it is highly uncertain whether there would be significant revenue gain from this provision because the mortgage interest deduction may be reduced or denied because of the Pease limitation.

Digested: 2/13/2023

February 15, 2023

The Honorable Daniel Holt, Chair

House Committee on Economic Development
State Capitol, Conference Room 423 & Videoconference

RE: House Bill 886, HD1, Relating to Taxation

HEARING: Wednesday, February 15, 2023, at 10:30 a.m.

Aloha Chair Holt, Vice Chair Lamosao, and Members of the Committee:

My name is Lyndsey Garcia, Director of Advocacy, testifying on behalf of the Hawai'i Association of REALTORS® ("HAR"), the voice of real estate in Hawai'i and its over 11,000 members. HAR strongly **opposes** House Bill 886, HD1, which eliminates the home mortgage interest deduction for second homes under Hawai'i income tax law. Sunsets on 7/1/2028. Effective 6/30/3000.

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 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. As such, 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.

Additionally, it is uncertain whether there would be a significant revenue gain from this measure and it may not be worth the complexity and uncertainty to decouple the mortgage interest deduction for second homes in Hawai'i from the Internal Revenue Code.

For the foregoing reasons, Hawai'i Association of REALTORS® strongly opposes this measure. Mahalo for the opportunity to testify.

HB-886-HD-1

Submitted on: 2/13/2023 7:28:46 PM

Testimony for ECD on 2/15/2023 10:30:00 AM

Submitted By	Organization	Testifier Position	Testify
Will Caron	Individual	Support	Written Testimony Only

Comments:

Please support HB886 HD1.

LATE **LATE**

HB-886-HD-1

Submitted on: 2/15/2023 2:35:56 AM

Testimony for ECD on 2/15/2023 10:30:00 AM

Submitted By	Organization	Testifier Position	Testify
Ruth Love	Individual	Support	Written Testimony Only

Comments:

Wholeheartedly support