

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



GARY S. SUGANUMA
DIRECTOR

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
Ka 'Oihana 'Auhau
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

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

TESTIMONY ON THE FOLLOWING MEASURE:

S.B. No. 924, Relating to Taxation

BEFORE THE:

Senate Committee on Housing

DATE: Tuesday, February 14, 2023

TIME: 1:01 p.m.

LOCATION: State Capitol, Room 225

Chair Chang, Vice-Chair Kanuha, and Members of the Committee:

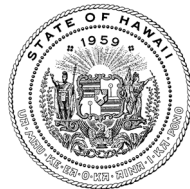
The Department of Taxation ("Department") offers the following comments regarding S.B. 924 for your consideration.

S.B. 924 eliminates the home mortgage interest deduction for second homes by exempting Hawaii from conforming to the Internal Revenue Code sections 163(h)(4)(A)(i)(II) and 163(h)(4)(A)(ii)(II). The bill is effective upon approval and applies to taxable years beginning after December 31, 2022.

The Department will be able to implement the bill by the current effective date.

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

JOSH GREEN, M.D.
GOVERNOR



LUIS P. SALAVERIA
DIRECTOR

SABRINA NASIR
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
Ka 'Oihana Mālama Mo'ohelu a Kālā
P.O. BOX 150
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT

WRITTEN ONLY
TESTIMONY BY LUIS P. SALAVERIA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON HOUSING
ON
SENATE BILL NO. 924

February 14, 2023
1:01 p.m.
Room 225 and Videoconference

RELATING TO TAXATION

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

Senate Bill (S.B.) No. 924 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 would like to point out that the description of the bill states: “[r]equires the amount of state revenue gained by eliminating the deduction to be deposited into the Rental Housing Revolving Fund.” However, as drafted, there is no provision in S.B. No. 924 to effectuate the described deposit.

Thank you for your consideration of our comments.

February 14, 2023

The Honorable Stanley Chang, Chair

Senate Committee on Housing
State Capitol, Conference Room 225 & Videoconference

RE: Senate Bill 924, Relating to Taxation

HEARING: Tuesday, February 14, 2023, at 1:01 p.m.

Aloha Chair Chang, Vice Chair Kanuha, 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** Senate Bill 924, which eliminates the home mortgage interest deduction for second homes under Hawaii income tax law. Requires the amount of state revenue gained by eliminating the deduction to be deposited into the Rental Housing Revolving Fund.

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.

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.

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

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

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

BILL NUMBER: HB 886, SB 924

INTRODUCED BY: HB by MARTEN, AMATO, COCHRAN, GANADEN, GATES, HUSSEY-BURDICK, KAPELA, KILA, PERRUSO, POEPOE, TARNAS, TODD; SB by RHOADS, CHANG

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: Taxable years beginning after December 31, 2022.

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: 2/1/2023

SB-924

Submitted on: 2/12/2023 7:25:24 PM

Testimony for HOU on 2/14/2023 1:01:00 PM

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

Comments:

Please support SB924.