

EXECUTIVE CHAMBERS  
KE KE'ENA O KE KIA'ĀINA

JOSH GREEN, M.D.  
GOVERNOR  
KE KIA'ĀINA

**House Committee on Finance**

Monday, February 26, 2024

12:30 p.m.

State Capitol, Conference Room 308, and Videoconference

**In Support**

**H.B. No. 2416, H.D. 1, Relating to Taxation**

Chair Yamashita, Vice Chair Kitagawa, and members of the House Committee on Finance:

Thank you for the opportunity to testify on H.B. No. 2416, H.D. 1, Relating to Taxation. The Office of the Governor supports this bill.

Hawaii's housing crisis continues to be one of the greatest challenges facing our State and affecting the lives of residents and communities. Housing costs in Hawaii are among the most expensive in the nation. This reality, compounded by the lack of housing availability and housing affordability, is especially acute for lower-income households. However, middle-income families and individuals struggle as well.

Factors contributing to the shortage of affordable housing for residents are the number of short-term rental market and vacant investment properties. According to the University of Hawaii Economic Research Organization, in a tight housing market with high prices and barriers to creating new supply, removing supply from the long-term housing market could harm residents by raising housing costs.

H.B. No. 2416, H.D. 1 would provide a conveyance tax exemption for certain real property furnished as a transient accommodation. While the conveyance tax exemption is retained from H.B. No. 2416, as introduced, we note that the following provisions are excluded from the H.D. 1 version of the bill: (1) Requiring the Director of Taxation to develop and administer a one-time tax amnesty program that would waive criminal prosecution, fines, penalties, and interest related to general excise tax and transient accommodations tax for qualified owners who convert an eligible property to a long-term rental through a two-year written residential lease agreement, subject to certain conditions; and (2) Providing an income tax exemption for capital gains realized from the sale of certain short-term rental properties furnished as a transient accommodation, subject to certain conditions. We would respectfully request that this Committee

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H.B. No. 2416, H.D.1  
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consider reinstating those two provisions to enable continued discussion on expanding the pool of available housing options for residents and providing timely housing relief for people experiencing homelessness.

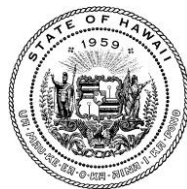
The Office of the Governor maintains that the conversion of short-term rentals to long-term would increase the housing supply for residents. This bill is but one of several Administration proposals that are aimed at providing greater access and opportunities to housing for residents.

There is shared interest in addressing our statewide housing crisis. The Office of the Governor looks forward to continued work with this Committee and other members of the Legislature to address the immediate housing needs of our State.

Thank you very much for the opportunity to provide testimony on this measure.

JOSH GREEN M.D.  
GOVERNOR

SYLVIA LUKE  
LT. GOVERNOR



STATE OF HAWAII  
**DEPARTMENT OF TAXATION**

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

**TESTIMONY ON THE FOLLOWING MEASURE:**

H.B. No. 2416, H.D. 1, Relating to Taxation.

**BEFORE THE:**

House Committee on Finance

**DATE:** Monday, February 26, 2024

**TIME:** 12:30 p.m.

**LOCATION:** State Capitol, Room 308

Chair Yamashita, Vice-Chair Kitagawa, and Members of the Committees:

The Department of Taxation ("Department") supports the Governor's initiative to address the State's affordable housing needs in H.B. 2416, H.D. 1, an Administration measure, and offers the following comments for your consideration.

HB 2416, H.D. 1, provides tax relief to persons who convert their short-term rental properties into long-term housing by creating an exemption from the conveyance tax. The bill has a placeholder effective date of July 1, 3000 and shall be repealed on January 1, 2026.

Section 1 of the bill amends section 247-3, Hawaii Revised Statutes (HRS), to exempt from conveyance tax any document or instrument conveying real property during the period from June 30, 2024, to December 31, 2025, provided that:

- (1) The conveyance is to an individual and the real property does not have a value greater than \$2,000,000;
- (2) The conveyance is not to an immediate family member of any owner of the property;
- (3) The individual to whom the property is conveyed does not have a direct or indirect ownership interest in any other real property;
- (4) That individual intends to immediately occupy the property as their primary residence for at least two years;

- (5) The property was furnished as a transient accommodation, as defined in section 237D-1, HRS, during the period from January 1, 2023, to June 30, 2024; and
- (6) All outstanding income, general excise, or transient accommodations taxes incurred on gross income or gross rental proceeds received for furnishing the property as a transient accommodation have been paid.

Section 2 of the bill amends section 247-6, HRS, to require that before obtaining the new exemption in section 4, any party to the document or instrument must file: 1) a declaration by the transferee, signed under penalty of perjury, that declares their intent to make the property their primary residence for not less than two years, and 2) certificates from the appropriate parties that all requirements of the new exemption have been met.

The Department recommends that the effective date be amended to July 1, 2024. The Department is able to administer this bill with the recommended amendment.

The Department estimates that this measure will result in a revenue loss of \$1.2 million in fiscal year 2024 and \$2.5 million in fiscal year 2025.

Thank you for the opportunity to provide testimony in support of this important measure.

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: CONVEYANCE, New Exemption for Property Converted to Long-Term Rental

BILL NUMBER: HB 2416 HD 1

INTRODUCED BY: House Committees on Housing and Tourism

EXECUTIVE SUMMARY: Provides a conveyance tax exemption for certain real property furnished as a transient accommodation. Repeals 1/1/2026. Effective 7/1/3000.

SYNOPSIS: Amends section 247-3, HRS, to add a conveyance tax exemption for any document or instrument conveying real property during the period from June 30, 2024, to December 31, 2025, with a value of not more than \$2,000,000 to an individual who: (A) Is not an immediate family member of any owner of the property; (B) Does not have a direct or indirect ownership interest in the property; (C) Does not have a direct or indirect ownership interest in any other real property; and (D) Intends to immediately occupy the property as the individual's primary residence for a period of not less than two years; provided that the property was furnished as a transient accommodation, as defined in section 237D-1, during the period from January 1, 2023, to June 30, 2024; and provided further that all outstanding taxes imposed under chapters 235, 237, and 237D for gross income, gross rental, or gross rental proceeds received for the furnishing of the property as a transient accommodation have been paid.

Amends section 247-6, HRS, to require as support for the above exemption: (A) A declaration signed under penalty of perjury by the transferee, declaring their intent to immediately occupy the property as their primary residence for a period of no less than two years; and (B) Certificates from the appropriate parties declaring that all requirements in the above described exemption have been met.

EFFECTIVE DATE: Shall take effect July 1, 3000 and be repealed January 1, 2026.

STAFF COMMENTS: This bill is sponsored by the Office of the Governor and is designated as GOV-15 (24). The justification sheet accompanying the bill states that it "is part of a comprehensive housing strategy to address the affordable housing needs of our State. The tax exemptions in this bill are intended to free up affordable housing units for families and individuals. Increasing the number of long-term rentals and the conversion of short-term rentals for sale to owner-occupants through tax benefits would provide residents with greater access to housing."

The bill appears to be an ambitious attempt to have private owners convert their vacation rental and B&B units into longer-term rentals or owner-occupied dwellings. The amount of the conveyance tax exemption under current law is worth \$6,000 to \$8,000 for a property under \$2 million. Not mere chump change, to be sure, but probably mild in the scheme of things.

Digested: 2/23/2024



*Cade Watanabe, Financial Secretary-Treasurer*

*Gemma G. Weinstein, President*

*Eric W. Gill, Senior Vice-President*

February 26, 2024

House Committee on Finance  
Representatives Yamashita, Chair  
Representative Kitagawa, Vice-Chair

**Testimony in Support of HB2416\_HD1, Relating to Taxation**

Chair Yamashita, Vice Chair Kitagawa and Members of the Committees,

UNITE HERE Local 5 represents 10,000 working people in the hotel, food service and health care industries across Hawaii.

We are deeply concerned about negative impacts to our community and tourism industry caused by the proliferation of STRs and we have advocated extensively for regulation of the STR industry.

HB2416's initial provisions created a tax amnesty, capital gains and conveyance tax program that would incentivize phasing out short-term rentals (STRs). HB2416 would've work hand-in-hand with HB1838 which would give counties the power to phase out non-conforming single-family transient vacation rental units. We submitted testimony in support of HB2416 with suggestions for improvement and clarity of the original bill's language.

In HB2416\_HD1, the tax amnesty and capital gains components were removed, leaving only the conveyance tax benefits for STR conversion to long-term housing.

While the conveyance tax benefits are still a good incentive for conversion, preserving the tax amnesty and capital gains components would've created a more robust incentive structure for the program.

Regardless, we still support the intent of HB2146\_HD1 which will incentivize STRs to convert to long-term housing.

Thank you for your consideration.

**HB-2416-HD-1**

Submitted on: 2/25/2024 6:34:51 AM

Testimony for FIN on 2/26/2024 12:30:00 PM

| <b>Submitted By</b> | <b>Organization</b> | <b>Testifier Position</b> | <b>Testify</b>            |
|---------------------|---------------------|---------------------------|---------------------------|
| Glen Kagamida       | Individual          | Support                   | Written Testimony<br>Only |

Comments:

SUPPORT