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TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION

TESTIMONY ON THE FOLLOWING MEASURE:

S.B. No. 1133, Relating to Housing.

BEFORE THE:

Senate Committee on Housing

DATE: Thursday, February 6, 2025

TIME: 1:05 p.m.

LOCATION: State Capitol, Room 225

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

The Department of Taxation (DOTAX) offers the following comments regarding S.B. 1133 for your consideration.

Section 3 of S.B. 1133 adds a new section to Chapter 235, Hawaii Revised Statutes (HRS), establishing a refundable Long-Term Residential Lease Tax Credit. This credit would provide an unspecified income tax credit for taxpayers who own and lease a dwelling unit, located in a county that has adopted a rental unit price ceiling ordinance, to a person as their principal residence under a lease agreement of one year or longer.

The tax credit applies to taxable years beginning after December 31, 2024.

DOTAX recommends making the credit nonrefundable, as refundable credits are more susceptible to waste, fraud, and abuse.

If the credit is amended to be nonrefundable and allowed to be carried forward, DOTAX recommends including a limit on the carryforward period for unused credits. This will enable effective tracking of credits carried forward and mitigate potential abuse.

Credit claims made farther away from the year in which costs are incurred are inherently more difficult to verify.

DOTAX notes there are challenges in administering the proposed credit. DOTAX would need to adopt new information reporting requirements regarding property ownership and lease details for taxpayers claiming the credit. Furthermore, ensuring that a dwelling is leased to a person as their primary residence may require some involvement by the lessee to attest they have no other primary residence, as lessors are not best situated to confirm this.

DOTAX recommends limiting credit claims to one taxpayer per property in cases where multiple persons own a leased dwelling unit and prohibiting credit claims by taxpayers who lease the dwelling unit to an immediate family member of any owner. Accordingly, DOTAX recommends that subsection (b) starting on page 5, line 3 be amended to read as follows:

(b) The amount of the credit shall be equal to \$_____ per dwelling unit to which the taxpayer has title and leases to a person as the person's principal residence in the State; provided that:

- (1) The lease shall be pursuant to a lease agreement of a term of one year or longer; ~~[and]~~
- (2) The dwelling unit is located in a county that has adopted a rental unit price ceiling ordinance pursuant to section 46-__~~[÷]~~[-]; and
- (3) The lessee shall not be an immediate family member of any owner of the dwelling unit;

provided further that if a dwelling unit is owned by multiple taxpayers, the tax credit may only be claimed by one taxpayer in a taxable year.

In the case of a partnership, S corporation, estate, trust, or other pass-through entity, the tax credit allowable is for every dwelling unit to which the entity

has title and leases to a person pursuant to this subsection. The tax credit shall be determined at the entity level. Distribution and share of the tax credit shall be determined pursuant to administrative rule.

DOTAX also recommends requiring credit claims to be made within 12 months after the close of the taxable year for which a qualified dwelling unit is rented. DOTAX proposes including the following language for subsection (c) starting on page 5, line 18:

(c) If the tax credit claimed by the taxpayer under this section exceeds the amount of the income tax payments due from the taxpayer, the excess of credit over payments due shall be refunded to the taxpayer; provided that the tax credit properly claimed by a taxpayer who has no income tax liability shall be paid to the taxpayer; provided further that no refunds or payments on account of the tax credit allowed by this section shall be made for amounts less than \$1. All claims for the tax credit under this section, including amended claims, shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of any claim to the credit.

If passed, DOTAX requests the bill be amended to apply to taxable years beginning after December 31, 2025, to provide sufficient time to adopt necessary systems, forms, and rules to implement the credit.

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



February 6, 2025

The Honorable Stanley Chang, Chair

Senate Committee on Housing

State Capitol, Conference Room 225 & Videoconference

RE: Senate Bill 1133, Relating to Housing

HEARING: Thursday, February 6, 2025, at 1:05 p.m.

Aloha Chair Chang, Vice Chair Hashimoto, 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 Hawaii and its over 10,000 members. HAR **opposes** Senate Bill 1133, which authorizes each county to establish by ordinances a rental unit price control that prohibits a landlord from increasing the rental price of a dwelling unit at a rate that exceeds the percentage calculated and published by the county based on changes in the applicable Consumer Price Index. Beginning 8/1/2025, requires each county to annually calculate and publish the maximum rate at which a landlord may increase the rental price of a dwelling unit during the immediately succeeding twelve-month period. Establishes a Long-Term Residential Lease Tax Credit for taxpayers who own and lease a dwelling unit located in a county that has adopted a rental unit price ceiling ordinance to a person as the person's principal residence in the State pursuant to a lease agreement of a term of one year or longer. Tax credit applies to taxable years beginning after 12/31/2024.

The Economic Research Organization at the University of Hawaii's ("UHERO") Hawaii Housing Fact Book highlights the stark reality that "Hawaii is the most expensive state in the nation for housing. Median housing costs are 2.7 times the national level."¹ Moreover, Hawaii's total housing supply has not seen significant growth, primarily due to "the most restrictive housing regulations in the nation. Long permit delays, limits on land use, legislative and judicial hurdles, and affordable housing requirements all constrain new construction making it more difficult for new housing to be supplied."² Increasing housing supply as well as encouraging and assisting property owners to offer homes for long-term rent is essential for a healthy rental housing market.

We do not believe rent control is the appropriate solution. **Rent control does nothing to increase the supply of rental housing and, ultimately, increasing supply is the true long-term solution to Hawaii's rental housing shortage.**

¹ UHERO. (June 28, 2023). *The Hawai'i Housing Factbook*. uhero.hawaii.edu/wp-content/uploads/2023/06/TheHawaiiHousingFactbook.pdf

² Ibid.

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In a survey of economists of the American Economic Association, 93% agreed that "a ceiling on rents reduces the quality and quantity of housing available."³ The role of rent plays two essential functions in the housing market. First, it compensates providers of existing housing units and developers of new units for the cost of providing housing to a consumer. Second, it provides economic incentives needed to attract new investment in rental housing and maintain existing housing stock... It encourages new investment in rental housing through new construction, rehabilitation and conversion of buildings from nonresidential to residential use."⁴

Additionally, rent control policies require local property owners to charge below-market rents. Property owners have costs required with owning and maintaining the property such as a mortgage, property taxes, maintenance fees, rising insurance costs, and so on and rent does not always cover those expenses. Rent control policies can lower rent to levels that "can also lead to a deterioration of the quality of housing stock as providers faced with declining revenues may be forced to substantially reduce maintenance and repair of existing housing."⁵

Mahalo for the opportunity to provide testimony on this measure.

³ National Multifamily Housing Council. *The High Cost of Rental Housing*. <https://www.nmhc.org/news/articles/the-high-cost-of-rent-control/>

⁴ Ibid.

⁵ Ibid.



February 6, 2025

Senator Stanley Chang, Chair
Senator Troy Hashimoto, Vice Chair
Committee on Housing

RE: **SB 1133 - Relating to Housing**
Hearing date: Thursday February 6, 2025 at 1:05PM

Aloha Chair Chang, Vice Chair Hashimoto, and members of the committee,

Mahalo for the opportunity to submit testimony on behalf of NAIOP Hawaii in **OPPOSITION to SB 1133 Relating to the Housing**. NAIOP Hawaii is the local chapter of the nation's leading organization for office, industrial, retail, residential and mixed-use real estate. NAIOP Hawaii has over 200 members in the State including local developers, owners, investors, asset managers, lenders, and other professionals.

SB 1133 authorizes each county to establish by ordinances a rental unit price control that prohibits a landlord from increasing the rental price of a dwelling unit at a rate that exceeds the percentage calculated and published by the county based on changes in the applicable Consumer Price Index. Further the measure requires each county to annually calculate and publish the maximum rate at which a landlord may increase the rental price of a dwelling unit during the immediately succeeding twelve-month period.

While this bill aims to address rental affordability by authorizing counties to implement rental price ceilings and creating a long-term residential lease tax credit, we must respectfully oppose it due to its conflicts with existing affordable housing regulations and potential negative impacts on housing development.

Rent stabilization measures in other jurisdictions have often led to unintended consequences, such as disincentivizing property maintenance and improvement, discouraging new housing development and reducing the availability of rental units as property owners opt out of the rental market. Given Hawaii's severe housing shortage, policies that introduce additional financial and regulatory risks to developers of rental housing could further slowdown affordable housing production, rather than expanding it.

While the long-term residential lease tax credit proposed in SB1133 may mitigate some of the adverse impacts of rent control, the amount of the tax credit is currently unknown and the practical benefit of the tax credit is uncertain, due in part to the 1-year minimum rental requirement.

Senator Stanley Chang, Chair
Senator Troy Hashimoto, Vice Chair
Committee on Housing
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We respectfully submit that the Legislature focus on strengthening existing affordable housing programs, streamlining permitting processes, and increasing funding for infrastructure that supports new development. We urge the committee to reconsider SB1133 and seek alternative measures that align with the state's established affordable housing framework.

We urge the Committee to reconsider SB 1133. NAIOP appreciates the Legislature's commitment to creating affordable housing for Hawaii residents and we look forward to working together. Thank you for the opportunity to provide testimony.

Mahalo for your consideration,

A handwritten signature in black ink, appearing to read 'Reyn Tanaka', with a stylized flourish at the end.

Reyn Tanaka, President
NAIOP Hawaii

Feb. 6, 2025 1:05 p.m.
Hawaii State Capitol
Conference Room 225 and Videoconference

To: Senate Committee on Housing

Sen. Stanley Chang, Chair

Sen. Troy N. Hashimoto, Vice-Chair

From: Grassroot Institute of Hawaii

Ted Kefalas, Director of Strategic Campaigns

TESTIMONY OPPOSING SB1133 — RELATING TO HOUSING

Aloha Chair Chang, Vice Chair Hashimoto and other members of the Committee,

The Grassroot Institute of Hawaii opposes [SB1133](#) due to our concerns about the bill's potential negative effect on rental affordability and availability in our state. The bill would allow the counties to establish rental unit price controls, which would likely end up hurting the people it is intended to help by exacerbating the current crisis in affordable rentals.

Economists have been studying rent controls for many decades and widely agree that they have a negative effect on housing markets, especially for vulnerable populations.

It is well-documented that over the long term, rent controls result in an increase in evictions, especially among lower-income tenants.¹

Rent control measures have also been shown to reduce the supply of available rental housing, eventually driving up rents as the supply of rental housing dries up.²

¹ Eilidh Geddes and Nicole Holz, "[Rational Eviction: How Landlords Use Evictions in Response to Rent Control](#)," June 22, 2023.

² Rebecca Diamond, Tim McQuade and Franklin Qian, "[The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco](#)," American Economic Review, Vol. 109, No. 9, pp. 3365-3394, Sept. 9, 2019.

This is why economists overwhelmingly oppose rent controls, and disagree with the idea that they can have a positive effect on the supply of affordable rental housing.³

Even over a limited period of time or limited geographic area, rent control laws can have a negative impact on the rental market.

A study of Berlin's 2020 rent freeze found that even in the short term, rent control in Germany's capital city resulted in a dramatic drop in the number of properties advertised for rent.⁴ Many of Berlin's rentals appeared to permanently disappear from the rental market. Meanwhile, the policy created a significant rent gap in neighboring areas, pushing up rental prices where the freeze didn't apply.

Where rent control measures are put in place, landlords who are fearful of the long-term impact of a rent control law often protect their interests by either raising their rental rates in advance or leaving the market entirely.

When the city of Buenos Aires in Argentina announced a plan to "stabilize" rents in 2021, rental prices shot up 67% in anticipation of the coming rent freeze.⁵

We could expect to see a similar response to SB1133, which would likely result in an anticipatory spike in rental prices along with increasing scarcity in the rental market. This would keep rents high while simultaneously discouraging new landlords from entering the market.

Though this bill seeks to offset this problem via a tax credit for landlords, it does not specify the amount of the credit, nor does it guarantee that the credit will make it profitable to rent out units under a restrictive regulatory regime.

The evidence is clear: Rent control laws have an unfortunate tendency to distort the rental market and increase the scarcity of rental properties — and the negative impact falls hardest on the most vulnerable.

Grassroot sympathizes with the desire to increase the affordability of rental property in Hawaii, but this cannot be accomplished by regulating rental prices. In fact, the rental control measures proposed in SB1133 are likely to make the situation worse, not better.

³ "[Rent Control](#)," Kent A. Clark Center for Global Markets, Feb. 7, 2012.

⁴ Anja M. Hahn, Konstantin A. Kholodilin, Sofie R. Walzl and Marco Fongoni, "[Forward to the Past: Short-Term Effects of the Rent Freeze in Berlin](#)," Management Science, March 22, 2023.

⁵ Patrick Gillespie, "[How a Plan to Stabilize Rents Sent Prices Skyrocketing](#)," Bloomberg, April 16, 2021.

A much better policy would be to facilitate more homebuilding by removing the barriers that have frustrated the construction of new housing units. This would have a more immediate and beneficial effect than rent control.

Thank you for the opportunity to testify.

Ted Kefalas
Director of Strategic Campaigns
Grassroot Institute of Hawaii

SB-1133

Submitted on: 2/4/2025 2:06:45 AM

Testimony for HOU on 2/6/2025 1:05:00 PM

Submitted By	Organization	Testifier Position	Testify
Ellen Awai	Individual	Support	Written Testimony Only

Comments:

I support SB1133 regarding rental increase by county.