

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION

Ka 'Oihana 'Auhau

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GARY S. SUGANUMA
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DEPUTY DIRECTOR

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

TESTIMONY ON THE FOLLOWING MEASURE:

H.B. No. 1086, Relating to Housing

BEFORE THE:

House Committee on Housing

DATE: Wednesday, January 29, 2025

TIME: 9:15 a.m.

LOCATION: State Capitol, Room 430

Chair Evslin, Vice-Chair Miyake, and Members of the Committee:

The Department of Taxation (DOTAX) offers the following comments regarding H.B. 1086, an Administration measure, for your consideration.

H.B. 1086 amends chapter 237, Hawaii Revised Statutes (HRS), by adding a general excise tax exemption for amounts received related to planning, design, financing, or construction activities conducted by a qualified person or firm for a new construction, moderate rehabilitation, or substantial rehabilitation project for homestead lots or housing for the department of Hawaiian Home Lands. The Department of Hawaiian Home Lands will provide the claimant with a certification of the exemption to file with DOTAX.

The bill also amends section 238-3(j), HRS, to extend the proposed exemption to the Use Tax.

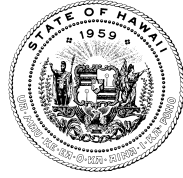
The bill is effective upon its approval and takes effect on January 1, 2026.

DOTAX can administer this bill with the current effective date.

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

JOSH GREEN, M.D.
GOVERNOR
STATE OF HAWAII
*Ke Kia'āina o ka Moku'āina 'o
Hawaii*

SYLVIA J. LUKE
LT. GOVERNOR
STATE OF HAWAII
*Ka Hope Kia'āina o ka Moku'āina
'o Hawaii*



KALI WATSON
CHAIRPERSON, HHC
Ka Luna Ho'okele

KATIE L. LAMBERT
DEPUTY TO THE CHAIR
Ka Hope Luna Ho'okele

STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS
Ka 'Oihana 'Āina Ho'opulapula Hawaii'i

P. O. BOX 1879
HONOLULU, HAWAII 96805

TESTIMONY OF KALI WATSON, CHAIR
HAWAIIAN HOMES COMMISSION
BEFORE THE HOUSE COMMITTEE ON HOUSING
HEARING ON JANUARY 29, 2025 AT 9:15AM IN CR 430

HB 1086, RELATING TO HOUSING

January 28, 2025

Aloha Chair Evslin, Vice Chair Miyake, and Members of the Committee:

The Department of Hawaiian Home Lands (DHHL) **strongly supports** this bill which exempts any development of homestead lots or housing for DHHL from general excise and use taxes. This bill was approved by the Hawaiian Homes Commission and included in the Governor's administrative package by request of DHHL.

DHHL defines homestead lots as residential, agricultural, and pastoral 99-year homestead leases. DHHL includes all acquisition, planning, design, post design, and construction of offsite and onsite development costs in its quantification of eligible costs for GET exemption purposes. The Governor's Emergency Proclamation (please see attachment) has been especially beneficial for DHHL in providing GET savings.

The following projects are funded with CIP and/or Act 279, SLH 2022 funds. The estimates noted below are from 2024. These projects are underway and/or in the pipeline for construction. The GET cost savings from these development projects could be used to develop more homestead lots.

| Projects Pending GET Exemption and/or in the Pipeline for Development | Est. Dev. Costs | Est. GET Savings |
|--|-------------------------------|-------------------------|
| HHL Rent with Option to Purchase (La'i'ōpua) (163 Units) | \$ 5,000,000 (x 4.712%) = | \$235,600 |
| Pu'u'hona Subdivision (160 Lots) 136 turnkey/24 vacant Lots | \$ 23,350,013 (x 4.712%) = | \$1,100,252 |
| Pu'u'hona Subdivision Site & Infrastructure Development | \$18,271,943.55 + \$5,509,000 | \$1,120,544 |

| | | |
|---|---|---------------------|
| | (Water Tank) = \$23,780,643.55 (x 4.712%) = | |
| Wailuku Single-Family Residential (204 Lots- 176 Units / 28 Vacant & Self-Help) | \$ 38,245,272 (x 4.712%) = | \$1,802,117 |
| Wai'ehu Mauka Subdivision | \$ 79,574,040 (x 4.712%) = | \$3,749,529 |
| 820 Isenberg Street (Bowl-O-Drome site) (277 Units) | \$ 137,000,000 (x 4.712%) = | \$6,455,440 |
| Lana'i Residence Lots Phase 2B (Planning & Design) | \$ 1,910,000 (x 4.712%) = | \$ 90,000 |
| Kalama'ula Agricultural Lots (Planning & Design)- (Up 65 Lots) | \$1,146,000 (x 4.712%) = | \$ 54,000 |
| Hanapēpē Residence Lots Phase 2 Development- (82 Lots) | \$33,903,539 (x 4.712%) | \$1,525,645 |
| Hanapēpē Residential Lots Phase 2 (75 lots) | \$20,000,000 (x 4.712%) | \$942,400 |
| | TOTAL: | \$17,075,527 |

Other homestead projects in the pipeline include:

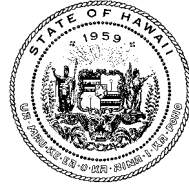
| Projects in the Pipeline for Development | Est. Dev. Costs | Est. GET Savings |
|--|--------------------------|-------------------------|
| Ka'uluokaha'i IIC (130 residential lots) | \$20,000,000 (x 4.5%) | \$900,000 |
| Kaupe'a Subdivision Phase 2- (60 lots) | \$50,878,221 (x 4.712%) | \$2,397,382 |
| Kēōkea Waiohuli 2B (76 residential lots) | \$18,000,000 (x 4.712%) | \$848,160 |
| Pulehunui Off-Site Infrastructure (100 agricultural lots) | \$50,000,000 (x 4.712%) | \$2,356,000 |
| Villages of Leialī'i 1B (250 residential lots) | \$130,000,000 (x 4.712%) | \$6,125,600 |
| Honokōwai Potable Water Development (1,200 mixed homestead lots) | \$30,000,000 (x 4.712%) | \$1,413,600 |

| | | |
|---|---|---------------------|
| Kahikinui Access Improvements (75 pastoral lots) | \$ 5,000,000 (x 4.712%) | \$235,600 |
| Nā'iwa Agricultural Subdivision (58 agricultural lots) | \$30,000,000 (x 4.712%) | \$1,413,600 |
| Villages of La'i'ōpua 4 Hema (130 residential lots) | \$14,000,000 (x 4.712%) | \$659,680 |
| Lana'i Residence Lots Subdivision Development (75 Lots) | \$20,000,000 (x 4.712%) | \$942,400 |
| Kalama'ula Agricultural Lots Development (Up 65 Lots) | \$20,000,000 (x 4.712%) | \$942,400 |
| | Total potential DHHL savings from GET exemptions: | \$18,234,422 |

Thank you for your consideration of our testimony.

JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION

Ka 'Oihana 'Auhau

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March 6, 2024

GARY S. SUGANUMA
DIRECTOR OF TAXATION

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

DEPARTMENT OF TAXATION ANNOUNCEMENT NO. 2024-02

RE: Suspension of General Excise Tax for Department of Hawaiian Home Lands Projects

On February 20, 2024, Governor Josh Green, M.D. signed the Fifth Proclamation Relating To Affordable Housing (the "Fifth Proclamation"), which suspended general excise tax (GET) on Department of Hawaiian Home Lands (DHHL) projects for newly constructed, or moderately or substantially rehabilitated, housing for beneficiaries.

This Tax Announcement details the suspension of GET for DHHL housing projects under the Fifth Proclamation.

Suspension of GET for DHHL Projects

In accordance with the foregoing, effective February 20, 2024, GET will be suspended on gross income received by a qualified taxpayer for a newly constructed, or a moderately or substantially rehabilitated, DHHL housing project for beneficiaries.

Certification Process for GET Suspension

The taxpayer must complete Form G-37, General Excise/Use Tax Exemption for Certified or Approved Housing Projects. Taxpayers must check the box on Form G-37, indicating that a project is being developed pursuant to an Emergency Proclamation.

The completed Form G-37 must then be filed with DHHL. Upon certification, DHHL will provide a copy of the certified Form G-37 to the taxpayer and transmit the original directly to the Department of Taxation.

GET Filing Requirements

Taxpayers must report all gross income received from a DHHL housing project on Form G-45 (Rev. 2023), Periodic General Excise/Use Tax Return, and Form G-49 (Rev. 2023), Annual Return and Reconciliation of General Excise/Use Tax Return. Taxpayers must also file Schedule GE, General Excise/Use Tax Schedule of Exemptions and Deductions, and use the Exemption/Deduction Code "100."

If you have questions about the certification process for a GET suspension under the Fifth Proclamation, please contact DHHL at 808-620-9500. If you have any questions about this Tax Announcement or the Department of Taxation's implementation of the GET suspension under

Department of Taxation Announcement No. 2024-01
March 6, 2024
Page 2 of 2

the Fifth Proclamation, please contact the Rules Office at 808-587-1530, or via email at Tax.Rules.Office@hawaii.gov.

GARY S. SUGANUMA
Director of Taxation

TAX FOUNDATION OF HAWAII

735 Bishop Street, Suite 417

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, USE TAX; DHHL; General Excise Tax Exemption; Use Tax Exemption

BILL NUMBER: HB 1086, SB 1405

INTRODUCED BY: HB by NAKAMURA by request, SB by KOUCHI by request (Governor's Package)

EXECUTIVE SUMMARY: Exempts any development of homestead lots or housing for the Department of Hawaiian Home Lands from general excise and use taxes.

SYNOPSIS: Amends chapter 237, HRS, by adding a new section to exempt amounts related to planning, design, financing, or construction activities conducted by a qualified person for a new construction, moderate rehabilitation, or substantial rehabilitation project for homestead lots or housing for the department of Hawaiian home lands (DHHL). The project may also be developed:

- Under a government assistance program approved by DHHL;
- Under the sponsorship of a nonprofit organization providing home rehabilitation or new homes on Hawaiian home lands for qualified families in need of decent, low-cost housing; or
- To provide affordable rental housing where at least fifty per cent of the available units are for households with incomes at or below eighty per cent of the area median family income, as determined by the United States Department of Housing and Urban Development.

All claims for exemption shall be filed and certified by DHHL and forwarded to the department of taxation.

Definitions are provided for "homestead lot", "moderate rehabilitation", "qualified person or firm" and "substantial rehabilitation".

Amends section 238-3(j), HRS to exempt from the Use Tax any use of property, services, or contracting exempted by the above GET exemption.

EFFECTIVE DATE: Upon approval, takes effect January 1, 2026.

STAFF COMMENTS: This is an Administration bill sponsored by the Department of Hawaiian Home Lands and designated HHL-03 (25).

Section 237-29(a), HRS, states that all gross income received by any qualified person or firm for the planning, design, financing, construction, sale, or lease in the State of a housing project that has been certified or approved under section 201H-36 shall be exempt from general excise taxes.

Section 201H-36, HRS, states that the Hawaii housing finance and development corporation (“HHFDC”) may approve and certify for exemption from general excise taxes any qualified person or firm involved with an affordable housing project.

Section 46-16.7, HRS, states that any county shall have the same powers as those granted the HHFDC pursuant to chapter 201H, HRS, provided, among other things, that county projects shall be granted an exemption from general excise or receipts taxes in the same manner as projects of the HHFDC pursuant to section 201H-36.

It seems that the proposed exemption has many similarities to the affordable housing exemption now in sections 46-15.1 and 201H-36, HRS. The proposed exemption appears to be looser, however:

- The existing low-income housing exemption requires a regulatory agreement of at least five years for moderate rehabilitation projects, ten years for substantial rehabilitation projects, and thirty years for new projects. No regulatory agreement is required by this bill.

Because the housing development is on Hawaiian homestead land, the beneficiaries to reside in the developed homes would be receiving several benefits unique to Hawaiian homesteads, as detailed in <https://dhh.hawaii.gov/applications/applying-for-hawaiian-home-lands/>:

- Annual lease rent of \$1.00 per year;
- 99-year lease;
- Lease term which can be extended for an additional 100 years, allowing passage of the homestead from generation to generation;
- Seven-year exemption from real property tax;
- Complete exemption of tax on land;
- Minimal real property tax after the first seven years (applies only to County of Kauai and City and County of Honolulu, Oahu);
- And other benefits.

These benefits should be taken into consideration to determine whether affordable housing development on Hawaiian home lands merits extension of the GET exemption to development on those lands as well. It is certainly arguable that the extension is warranted given that Hawaiian beneficiaries often have been waiting years or decades on the wait list for Hawaiian home lands.



January 27, 2025

The Honorable Luke A. Evslin, Chair, and Members
House Committee on Housing
Hawaii State Capitol
415 South Beretania Street
Honolulu, HI 96813

SUBJECT: H.B. 1086 RELATING TO HOUSING
Hearing: Wednesday, January 29, 2025; 9:15 a.m.
Conference Room 430, State Capitol

Dear Chair Evslin and Members of House Committee on Housing:

My name is Quentin Machida, testifying on behalf of Gentry Homes, Ltd. and its development subsidiaries, in **strong support** of H.B. 1086. This bill would provide general excise tax exemptions for the development of Hawaiian homestead lots or housing for the Department of Hawaiian Home Lands.

Gentry has partnered with DHHL in the development of over 500 homes for native Hawaiian beneficiaries, and we have been selected to build another 600-700 homes in East Kapolei. Under current law, in order to receive GET exemptions for costs associated with the planning, design, financing, or construction of a new DHHL project, we would have to apply to the Hawaii Housing Finance and Development Corporation, and the GET exemption would not be assured. This bill would ensure that GET exemptions would be granted for DHHL projects, thus reducing the overall cost of providing much-needed homes for native Hawaiian beneficiaries.

Your support of this measure would be greatly appreciated. Thank you very much for your consideration.

Sincerely,

GENTRY HOMES, LTD.

A handwritten signature in blue ink, appearing to read "Quentin Machida".

Quentin Machida
President and CEO



Support HB1086

Aloha e Representatives, Chair, Vice Chair:

We are testifying on behalf of Locals In My Backyard (LIMBY) Hawai'i. LIMBY Hawai'i is a hui of concerned kama'āina and kānaka working to help develop solutions to our state's housing crisis.

We are concerned that NIMBYism has driven up costs and driven our friends and families out by opposing all development. We are equally concerned that the apparent answer to this, YIMBYism, insists that anything resembling true affordability is impossible so instead they promote building housing that gets bought by overseas investors. ***We know we won't solve our housing woes without building more, but we won't solve them by simply building more.***

The true solution is to create a housing market for locals: one that houses locals first, is tied to local wages, and is managed in trust. We detail real solutions to our housing woes on our website and through our newsletter.

The future for kama'āina and kānaka will be LIMBY or Las Vegas. This bill tips the balance in favor of kānaka staying in Hawaii. For that reason we urge you to pass it.

Makana Hicks-Goo,
Organizer on behalf of LIMBY Hawaii

HB-1086

Submitted on: 1/28/2025 3:57:18 PM

Testimony for HSG on 1/29/2025 9:15:00 AM

| Submitted By | Organization | Testifier Position | Testify |
|-----------------------|---------------------|---------------------------|----------------|
| De MONT Kalai Manaole | Hoomana Pono, LLC | Support | In Person |

Comments:

We STRONGLY SUPPORT this measure. Mahalo.