

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION

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GARY S. SUGANUMA
DIRECTOR

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

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

TESTIMONY ON THE FOLLOWING MEASURE:

S.B. 1405, Relating to Housing.

BEFORE THE:

Senate Committees on Hawaiian Affairs and Housing

DATE: Tuesday, January 4, 2025

TIME: 1:45 p.m.

LOCATION: State Capitol, Room 224

Chairs Richards, III, and Chang, Vice-Chairs San Buenaventura and Hashimoto, and Members of the Committees:

The Department of Taxation (DOTAX) offers the following comments on S.B. 1405, an Administration measure, for your consideration.

S.B. 1405 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.

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.

SB-1405

Submitted on: 2/3/2025 10:10:00 AM

Testimony for HWN on 2/4/2025 1:45:00 PM

Submitted By	Organization	Testifier Position	Testify
Sandie Wong	Testifying for Dowling Company, Inc.	Support	Remotely Via Zoom

Comments:

On behalf of Dowling Company, Inc. I support SB1405 and the good work of DHHL.

Thank you.

SB-1405

Submitted on: 1/31/2025 5:43:35 PM

Testimony for HWN on 2/4/2025 1:45:00 PM

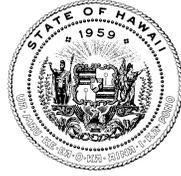
Submitted By	Organization	Testifier Position	Testify
ANNI K. AU HOON	Individual	Support	Written Testimony Only

Comments:

In support of SB1405

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 SENATE COMMITTEE ON HAWAIIAN AFFAIRS AND
THE SENATE COMMITTEE ON HOUSING
HEARING ON FEBRUARY 4, 2025 AT 1:45PM IN CR 224**

SB 1405, RELATING TO HOUSING

February 3, 2025

Aloha Chairs Richards and Chang, Vice Chairs San Buenaventura and Hashimoto, and Members of the Committees:

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	\$ 26,035,276 (x 4.712%) =	\$1,226,783

Pu'uhona Subdivision Site & Infrastructure Development	\$18,271,943.55 + \$5,509,000 (Water Tank) = \$23,780,643.55 (x 4.712%) =	\$1,120,544
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)	\$ 2,000,000 (x 4.712%) =	\$ 94,240
Kalama'ula Agricultural Lots (Planning & Design)- (Up 65 Lots)	\$1,200,000 (x 4.712%) =	\$ 56,544
Hanapēpē Residence Lots Phase 2 Development- (82 Lots)	\$33,903,539 (x 4.712%)	\$1,525,645
	TOTAL:	\$16,266,442

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 4.712%)	\$942,400
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 Leialii 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:	\$18,276,822

Thank you for your consideration of our testimony.



February 4, 2025

Senator Herbert M. "Tim" Richards, III, Chair, and Members
Senate Committee on Hawaiian Affairs
Senator Stanley Chang, Chair, and Members
Senate Committee on Housing
Hawaii State Capitol
415 South Beretania Street
Honolulu, HI 96813

SUBJECT: S.B. 1405 RELATING TO HOUSING
Hearing: Tuesday, February 4, 2025; 1:45 p.m.
Conference Room 224, State Capitol

Dear Chair Richards and Chair Chang and Members of Senate Committees on Hawaiian Affairs and Housing:

My ^{LATE} name is Quentin Machida, testifying on behalf of Gentry Homes, Ltd. and its development subsidiaries, in **strong support** of S.B. 1405. 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.

Quentin Machida
President and CEO