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# A BILL FOR AN ACT

RELATING TO STATE MORTGAGE CREDIT CERTIFICATES.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. The purpose of this Act is to assist low- and  
2 moderate-income taxpayers with purchasing a principal residence  
3 in sustainable affordable housing developments by providing  
4 qualified buyers with an income tax credit in an amount equal to  
5 a percentage of the buyer's annual mortgage interest payment.  
6 The requirements for claiming this tax credit are based in part  
7 on a similar federal tax credit under the Internal Revenue Code.

8           SECTION 2. Chapter 235, Hawaii Revised Statutes, is  
9 amended by adding a new part to be appropriately designated and  
10 to read as follows:

11                   "PART       .   STATE MORTGAGE CREDIT CERTIFICATES

12                   §235-A Definitions. As used in this part:

13                   "Certified indebtedness amount" means the amount of  
14 indebtedness that is incurred by a taxpayer to acquire the  
15 principal residence of the taxpayer and specified in the state  
16 mortgage credit certificate.

17                   "First-time homebuyer" means a person who has not owned a  
18 principal residence in the State for at least three years prior



1 to the purchase of the home for which the person is claiming a  
2 credit under this part.

3 "Principal residence" has the same meaning as used in  
4 section 121 (with respect to exclusion of gain from sale of  
5 principal residence) of the Internal Revenue Code of 1986, as  
6 amended.

7 "State mortgage credit certificate" means the certificate  
8 that is issued to a taxpayer in connection with the acquisition  
9 of the taxpayer's principal residence that specifies the  
10 certified indebtedness amount and is in a form that the director  
11 of taxation may prescribe.

12 **§235-B Allowance of credit.** (a) There shall be allowed  
13 to each taxpayer subject to the taxes imposed under this  
14 chapter, a tax credit that shall be applied to the taxpayer's  
15 net income tax liability, if any, imposed by this chapter for  
16 the taxable year in which the credit is properly claimed. The  
17 tax credit shall be equal to per cent of the interest paid  
18 or accrued by the taxpayer during the taxable year on the  
19 remaining principal of the certified indebtedness amount.

20 If two or more persons hold interests in any residence, the  
21 tax credit shall be allocated among the persons in proportion to  
22 their respective interests in the residence.



1 (b) A taxpayer claiming a credit under this part shall  
2 meet the following requirements:

3 (1) The taxpayer shall be a first-time homebuyer. If more  
4 than one person is purchasing a residence, all persons  
5 shall be first-time homebuyers;

6 (2) The residence financed by the indebtedness shall be a  
7 residence in the State that becomes the principal  
8 residence of the mortgagor within one year after  
9 financing is provided;

10 (3) The residence financed by the indebtedness shall be  
11 part of a sustainable affordable development, as  
12 defined in section 516-1; and

13 (4) The taxpayer's household income shall not exceed one  
14 hundred forty per cent of the area median income, as  
15 determined by the United States Department of Housing  
16 and Urban Development.

17 (c) Except to the extent provided in rules, the issuance  
18 of state mortgage credit certificates shall not be limited to  
19 indebtedness incurred from particular lenders and a state  
20 mortgage credit certificate shall not be transferable.

21 §235-C Carryover of unused credit. If the tax credit  
22 allowed under this part for any taxable year exceeds a



1 taxpayer's tax liability for that taxable year, the excess may  
2 be carried over for three successive taxable years.

3 **§235-D Period for which certificate in effect. (a)**

4 Except as otherwise provided in this part, a state mortgage  
5 credit certificate shall be treated as in effect with respect to  
6 interest attributable to the period:

7 (1) Beginning on the date the certificate is issued; and

8 (2) Ending on the earlier of:

9 (A) The date that is specified in the certificate; or

10 (B) The date on which the residence to which the  
11 certificate relates ceases to be the principal  
12 residence of the individual to whom the  
13 certificate relates.

14 (b) A certificate shall not apply to any indebtedness that  
15 is incurred after the close of the second calendar year  
16 following the calendar year in which the certificate is issued.

17 **§235-E Interest paid or accrued to related persons.** No  
18 tax credit shall be allowed under this part for any interest  
19 paid or accrued to a person who is related to the taxpayer,  
20 within the meaning of section 144(a)(3)(A) (with respect to  
21 qualified small issue bond) of the Internal Revenue Code of  
22 1986, as amended.



1           **§235-F Reporting requirements.** Each person who makes a  
2 loan that is a certified indebtedness amount under any state  
3 mortgage credit certificate shall file a report with the  
4 director of taxation containing:

5           (1) The name, address, and social security account number  
6           of the person issued a certificate;

7           (2) The certificate's issuer, date of issue, and certified  
8           indebtedness amount; and

9           (3) Any other information that the director of taxation  
10           may require by rule adopted pursuant to chapter 91.

11           **§235-G Rules and administration.** (a) The eligibility  
12 requirements for state mortgage credit certificates shall be  
13 administered and enforced by the Hawaii housing finance and  
14 development corporation. The corporation shall certify the  
15 eligibility of each taxpayer who wishes to obtain a state  
16 mortgage credit certificate to the director of taxation who  
17 shall issue the certificate.

18           (b) The director of the Hawaii housing finance and  
19 development corporation shall adopt rules pursuant to chapter 91  
20 that may be necessary to carry out the purposes of this part,  
21 including rules that may require recipients of state mortgage



1 credit certificates to pay a reasonable processing fee to defray  
2 the expenses incurred in administering the program."

3 SECTION 3. There is appropriated out of the general  
4 revenues of the State of Hawaii the sum of \$ or so  
5 much thereof as may be necessary for fiscal year 2007-2008 for  
6 the purposes of this Act.

7 The sum appropriated shall be expended by the department of  
8 taxation for the purposes of this Act.

9 SECTION 4. In codifying the new sections added by section  
10 2 of this Act, the revisor of statutes shall substitute  
11 appropriate section numbers for the letters used in designating  
12 the new sections in this Act.

13 SECTION 5. This Act shall take effect on July 1, 2050, and  
14 shall apply to taxable years beginning after December 31, 2006;  
15 provided that section 3 of this Act shall take effect on July 1,  
16 2050.



**Report Title:**  
State Mortgage Credit Certificates

**Description:**  
Assists low- and moderate-income home buyers by providing a state income tax credit for a percentage of the annual mortgage interest paid per year. (SD2)

