

Honolulu, Hawaii

FEB 16 2007

RE: S.B. No. 600

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fourth State Legislature
Regular Session of 2007
State of Hawaii

Madam:

Your Committees on Economic Development and Taxation and Commerce, Consumer Protection, and Affordable Housing, to which was referred S.B. No. 600 entitled:

"A BILL FOR AN ACT RELATING TO LEASEHOLD CONVERSION,"

beg leave to report as follows:

The purpose of this measure is to exempt from taxation, one hundred per cent of the capital gains realized during taxable years 2008-2012, from a sale of the leased fee interest in condominium units to an association of apartment owners or residential cooperative corporations.

Testimony in support of this measure was received from the Hawaii Association of REALTORS; Hawai'i Legislative Action Committee of the Community Associations Institute; Hawaii Council of Associations of Apartment Owners; Hawaii Independent Condominium and Cooperative Owners; Monarch Properties; Kuilima Estates West; Kuilima Estates East; Association of Apartment Owners at the Lauloa Condominium, and at the Diamond Head Beach Hotel and Residences Condominium; and two individuals. The Department of Taxation (Department) and the Tax Foundation of Hawaii submitted comments.

Your Committees received a revenue impact statement from the Department that the revenue loss would be approximately \$900,000 annually. However, the fiscal impact statement did not specify the methodology used to determine the loss.



Your Committees find that in 2004, the City and County of Honolulu's Leasehold Task Group was charged with finding voluntary solutions that would allow apartment owner-occupants to acquire their leased-fee interest. One of the recommendations of the Task Group was for tax legislation that would motivate lessors to sell their leased-fee interest to lessee owner-occupants, and specifically, that would exempt the lessor's sale proceeds from the capital gains tax. This would also avoid a 1031 tax-deferred exchange, which is both time consuming and expensive, and therefore out of the reach of some lessors.

Your Committees note that the Department's revenue loss is quite modest, and have heard in testimony that the State will benefit from the increased sales of leasehold property by way of increased conveyance tax fees and income taxes on commissions earned by the brokers involved in such transactions. More importantly, these sales could result in voluntary conversion of leasehold to fee simple ownership for residential lessees throughout the State, preventing the anticipated displacement of many older residents whose leasehold terms will soon expire.

Your Committees believe that this will be the only opportunity to be fee simple homeowners for many residents faced with an increasingly expensive and competitive housing market, and it is the intent of your Committees to support this modest option.

As affirmed by the records of votes of the members of your Committees on Economic Development and Taxation and Commerce, Consumer Protection, and Affordable Housing that are attached to this report, your Committees are in accord with the intent and purpose of S.B. No. 600 and recommend that it pass Second Reading and be referred to the Committee on Ways and Means.

Respectfully submitted on
behalf of the members of the
Committees on Economic
Development and Taxation and
Commerce, Consumer Protection,
and Affordable Housing,


BRIAN T. TANIGUCHI, Chair


CAROL FUKUNAGA, Chair



Record of Votes
Committee on Economic Development and Taxation
EDT

*Only one measure per Record of Votes

The Senate
Twenty-Fourth Legislature
State of Hawaii

Record of Votes
Committee on Commerce, Consumer Protection and Affordable Housing
CPH

Bill / Resolution No.:* <div style="font-size: 1.2em; font-weight: bold;">SB 600</div>	Committee Referral: <div style="font-size: 1.2em; font-weight: bold;">EDT/CPH, NAM</div>	Date: <div style="font-size: 1.2em; font-weight: bold;">2/14/07</div>		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="text-align: center;"> <input checked="" type="checkbox"/> Pass, unamended 2312 </div> <div style="text-align: center;"> <input type="checkbox"/> Pass, with amendments 2311 </div> <div style="text-align: center;"> <input type="checkbox"/> Hold 2310 </div> <div style="text-align: center;"> <input type="checkbox"/> Recommit 2313 </div> </div>				
Members	Aye	Aye (WR)	Nay	Excused
TANIGUCHI, Brian T. (C)	✓			
IGE, David Y. (VC)	✓			✓
ESPERO, Will	✓			
IHARA, Jr., Les				✓
SAKAMOTO, Norman	✓			
SLOM, Sam	✓			
TOTAL	54	-	-	1
Recommendation: <div style="display: flex; justify-content: space-around; margin-top: 10px;"> <input type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted </div>				
Chair's or Designee's Signature: <div style="font-size: 1.5em; font-family: cursive;">N. Sakamoto</div>				
<div style="display: flex; justify-content: space-between;"> <div style="text-align: center;"> Distribution: File with Committee Report </div> <div style="text-align: center;"> Original Yellow Clerk's Office </div> <div style="text-align: center;"> Pink Drafting Agency </div> </div>				

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