
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 up to
5 twenty per cent 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 "Certificate credit rate" means the rate of the credit
14 allowable by this part that is specified in the state mortgage
15 credit certificate.

16 "Certified indebtedness amount" means the amount of
17 indebtedness that is incurred by a taxpayer to acquire the



1 principal residence of the taxpayer and specified in the state
2 mortgage credit certificate.

3 "First-time homebuyer" means a person who has not owned a
4 principal residence in the state for at least three years prior
5 to the purchase of the home for which the person is claiming a
6 credit under this part.

7 "Principal residence" has the same meaning as used in
8 Section 121 of the Internal Revenue Code of 1986, as amended.

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

14 **§235-B Allowance of credit.** (a) There shall be allowed
15 to each taxpayer subject to the taxes imposed under this
16 chapter, a tax credit that shall be applied to the taxpayer's
17 net income tax liability, if any, imposed by this chapter for
18 the taxable year in which the credit is properly claimed. The
19 tax credit shall be equal to the product of:

20 (1) The certificate credit rate; and



1 (2) The interest paid or accrued by the taxpayer during
2 the taxable year on the remaining principal of the
3 certified indebtedness amount.

4 If the certificate credit rate exceeds twenty per cent, the
5 amount of the tax credit allowed to the taxpayer under this
6 section for any taxable year shall not exceed \$2,000; provided
7 that if two or more persons hold interests in any residence, the
8 tax credit shall be allocated among the persons in proportion to
9 their respective interests in the residence.

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

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

15 (2) The residence financed by the indebtedness shall be a
16 residence in the state that can reasonably be expected
17 to become the principal residence of the mortgagor
18 within a reasonable time after financing is provided;

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



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

5 (c) Except to the extent provided in rules, the issuance
6 of state mortgage credit certificates shall not be limited to
7 indebtedness incurred from particular lenders and a state
8 mortgage credit certificate shall not be transferable.

9 **§235-C Determination of certificate credit rate.** For the
10 purposes of this part, the certificate credit rate specified in
11 a state mortgage credit certificate shall be not less than ten
12 per cent and not more than fifty per cent.

13 **§235-D Aggregate limit on certificate credit rates.** The
14 sum of the products determined by multiplying the certified
15 indebtedness amount of each state mortgage credit certificate
16 issued under the program, by the certificate credit rate with
17 respect to the certificate, shall not exceed the amount
18 authorized by the legislature for that year as indicated by a
19 concurrent resolution adopted for that purpose.

20 **§235-E Carryover of unused credit.** (a) If the tax credit
21 allowed under this part for any taxable year exceeds a
22 taxpayer's tax liability for that taxable year, the excess may



1 be carried over for three successive taxable years and, subject
2 to the limitations of section 235-B, shall be added to the
3 credit allowable by this part for the succeeding taxable year.

4 (b) The amount of the unused credit that may be taken into
5 account under this section for any taxable year shall not exceed
6 the amount, if any, by which the applicable tax limit for the
7 taxable year exceeds the sum of:

8 (1) The credit allowable under this part for the taxable
9 year determined without regard to this section; and

10 (2) The amounts that, by reason of this section, are
11 carried to the taxable year and are attributable to
12 taxable years before the unused credit year.

13 **§235-F Period for which certificate in effect.** (a)

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

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

18 (2) Ending on the earlier of:

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

20 (B) The date on which the residence to which the
21 certificate relates ceases to be the principal



1 residence of the individual to whom the
2 certificate relates.

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

6 **§235-G Interest paid or accrued to related persons.** No
7 tax credit shall be allowed under this part for any interest
8 paid or accrued to a person who is related to the taxpayer,
9 within the meaning of Section 144(a)(3)(A) of the Internal
10 Revenue Code of 1986, as amended.

11 **§235-H Reporting requirements.** (a) Each person who makes
12 a loan that is a certified indebtedness amount under any state
13 mortgage credit certificate shall file a report with the
14 director of taxation containing:

- 15 (1) The name, address, and social security account number
- 16 of the person issued a certificate;
- 17 (2) The certificate's issuer, date of issue, certified
- 18 indebtedness amount, and certificate credit rate; and
- 19 (3) Any other information as the director of taxation may
- 20 require by rule adopted pursuant to chapter 91.

21 (b) Each person who issues a state mortgage credit
22 certificate shall file a report that contains information as the

1 director shall prescribe by rule adopted pursuant to chapter 91.
2 The report shall be filed at a time and in a manner as the
3 director of taxation may require according to rules adopted
4 pursuant to chapter 91.

5 **§235-I Rules.** The director shall adopt rules pursuant to
6 chapter 91 as may be necessary to carry out the purposes of this
7 part, including rules that may require recipients of state
8 mortgage credit certificates to pay a reasonable processing fee
9 to defray the expenses incurred in administering the program."

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

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

16 SECTION 4. In codifying the new sections added by section
17 2 of this Act, the revisor of statutes shall substitute
18 appropriate section numbers for the letters used in designating
19 the new sections in this Act.

20 SECTION 5. This Act shall take effect on July 1, 2020 and
21 shall apply to taxable years beginning after December 31, 2006;



1 provided that sections 3 and 4 of this Act shall take effect on
2 July 1, 2007.



Report Title:

State Mortgage Credit Certificates

Description:

Assists low- and moderate-income home buyers by providing a state income tax credit up to 20 percent of the annual mortgage interest paid per year. (HB1096 HD1)

