



## DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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Statement of  
**LUIS P. SALAVERIA**  
Director

Department of Business, Economic Development, and Tourism  
before the

**SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, ENVIRONMENT, AND  
TECHNOLOGY**

Wednesday, March 16, 2016  
1:20 P.M.  
State Capitol, Room 414

in consideration of  
**HB 1735, HD1**  
**RELATING TO PROPERTY TAXES.**

Chair Wakai, Vice Chair Slom, and Members of the Committee.

The Department of Business, Economic Development & Tourism (DBEDT) offers comments on HB1735, HD1, which would require DBEDT to study the effects of Hawaii's low property tax rates. DBEDT would like to offer the following comments on the bill:

1. The correlations between property tax and cost of living, housing affordability, homelessness, home ownership, and out-of-state investments are very complex issues. This would require DBEDT to contract for the expertise to conduct such a large and complex study. A study of this magnitude could cost in excess of \$150,000.
2. Such a study may take more than a year to complete, which is beyond the time limit of this bill.
3. According to the Hawaii State Constitution, the administration of real property tax is with the counties and, therefore, it might be more appropriate for the counties to conduct such a study.
4. Unlike any other state in the nation, Hawaii's state government covers 100% of public education. The Hawaii State government is also responsible for public safety and the public health systems; while in most other states these functions are covered by the local government.
5. Even with fewer local government functions in Hawaii and low real property tax rates, real property tax contributed 36.1% of all the county government revenues in Hawaii, higher than

the national average of 25.9%. While it is beyond the scope of DBEDT's expertise, county government finance is another area that needs to be studied.

6. The bill requires specific data regarding Federal tax and Hawaii state tax. Due to data confidentiality for tax data, DBEDT employees do not have access to this data. DBEDT would have to collaborate with DOTAX and each respective county in order to compile the information that would be useful for this analysis.

Thank you for the opportunity to provide the above comments.

# TAX FOUNDATION OF HAWAII

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SUBJECT: REAL PROPERTY, Study by DBEDT on Property Tax Rates

BILL NUMBER: HB 1735, HD-1

INTRODUCED BY: House Committee on Finance

EXECUTIVE SUMMARY: This bill calls for a study on why Hawaii's property taxes are so low compared to other states, presupposing the low rates to be a bad thing. The bill proponents may have forgotten that the state doesn't own the property taxes any more; they have been the province of the counties since the late 1970s. We question why the state should be spending state taxpayer money on a county matter.

BRIEF SUMMARY: Calls for a report no later than 20 days prior to the regular session of 2017 on (1) the effect of low property tax rates in Hawaii on (A) land values; (B) the real estate market; (C) the ability of the workforce to afford and own a home; (D) the availability of affordable housing; (E) Federal taxes owed by Hawaii residents, including any reduced taxes from a homestead exemption; and (F) funding for public education; (2) how Hawaii compares to other states with regard to property tax rates; (3) how many Hawaii residential property owners are not Hawaii residents; and (4) how many Hawaii residential property owners do not pay Hawaii income tax. Appropriates \$\_\_\_\_\_ for the study.

EFFECTIVE DATE: July 1, 2016.

STAFF COMMENTS: The recitals in the bill describe the need for this study as follows:

The legislature finds that Hawaii has the lowest property taxes in the nation. Although this makes sense for low- and middle-income residents who own an average single-family home, this causes the counties to potentially forego additional tax revenue from high-value homes and second homes.

The legislature further finds that many individuals and families who spend time in Hawaii are owners of high-value properties and do not pay state income tax, instead maintaining resident status in another state with a lower income tax rate. However, these individuals still use Hawaii's infrastructure and services, and thus should pay their fair share.

The legislature also finds that low property taxes can incentivize development of high-end, high-value properties, contributing to the high cost of land in Hawaii, driving up the cost of living and exacerbating our affordable housing and homelessness issues.

Finally, low property taxes lessen the impact of the federal homestead exemption, which is intended to make property taxes more progressive.



Of these “findings” justifying the study, many of the propositions are questionable. The conventional wisdom as to why Hawaii has low real property taxes is that most other states provide schools at the city or county level, requiring them to be funded by a municipal funding source like a property tax; Hawaii has a state-run school system, which is funded by state funding sources like the income tax and the GET.

The bill bemoans the low property taxes and portrays the counties as suffering because they are foregoing tax revenue. Nothing is making the counties forego revenue. Under article VIII, section 3 of the Hawaii Constitution, the counties now own the real property tax and have since the late 1970’s. The counties set property tax rates by ordinance and look at rate levels during every budget cycle. If the counties are foregoing revenue, they are doing it by their own choice.

The bill casts aspersions on nonresidents who don’t pay state income tax, asserting that they still use Hawaii government services and should pay their fair share. Our income tax, however, is like the tax systems in most other states. Nonresidents get taxed on income with its source in Hawaii. Residents get taxed on income regardless of source BUT get a credit for tax paid to another state or country on income that has its source in that state or country. Taxpayers who are nonresidents need to be present in Hawaii for less than half the year, and presumably would use fewer government services than Hawaii residents who live and work here. But it is not at all obvious that nonresidents pay less in income tax; again, a given taxpayer’s tax, whether resident or not, depends on where the taxpayer’s income is sourced and the extent to which other jurisdictions are also imposing an income tax on it.

Then, the bill asserts that low property taxes lead to development of high-end properties that then drive up the cost of land and therefore the cost of living. So the remedy for this is higher taxes which, in a free market, can and do drive up the cost of living *by themselves*?

In any case, why are we proposing to use state funds to pay for such a study when only the counties, and not the state, are affected by real property tax?

The apparent aim of the legislative effort of which this bill is a part, given that the teachers’ union is supporting it, is some kind of increase in real property taxes that will then be used to fund public education. Two obvious problems come to mind. First, even if the State finds the property tax rates to be abominably low, the State can’t do anything about it without a constitutional amendment because the Hawaii Constitution gives the power of real property taxation to the counties. And even if an increase in real property tax were to come to pass, how could the money get to the Department of Education? The constitution says that real property tax collections are county money, and, given the current wrangling between the State and counties over how much transient accommodations tax revenue should be given to the counties, the counties are not likely to fork over their money to the State any time soon.

The study called for in this bill is pointless. Doing it would be pouring perfectly good State money down the drain.

**wakai1 - Lilinoe**

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**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Monday, March 14, 2016 5:03 PM  
**To:** EET Testimony  
**Cc:** dylanarm@hawaii.edu  
**Subject:** \*Submitted testimony for HB1735 on Mar 16, 2016 13:20PM\*

**HB1735**

Submitted on: 3/14/2016

Testimony for EET on Mar 16, 2016 13:20PM in Conference Room 414

Submitted By	Organization	Testifier Position	Present at Hearing
Dylan Armstrong	Individual	Support	No

**Comments:**

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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**wakai1 - Lilinoe**

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**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Tuesday, March 15, 2016 1:04 PM  
**To:** EET Testimony  
**Cc:** joseph.a.roos@hawaii.gov  
**Subject:** Submitted testimony for HB1735 on Mar 16, 2016 13:20PM

**HB1735**

Submitted on: 3/15/2016

Testimony for EET on Mar 16, 2016 13:20PM in Conference Room 414

Submitted By	Organization	Testifier Position	Present at Hearing
Joseph Roos	DBEDT	Comments Only	Yes

Comments: DBEDT offers comments

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