SB3078

Measure Title:	RELATING TO LOW-INCOME HOUSING TAX CREDIT.
Report Title:	Low-income Housing Tax Credit
Description:	Permits developers of low-income housing to apply Hawaii low-income housing tax credits in four years instead of ten years.
Companion:	HB1959
Package:	None
Current Referral:	HOU, WAM
Introducer(s):	HARIMOTO, CHUN OAKLAND, GALUTERIA, GREEN, INOUYE, Ihara, Slom, Wakai

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To: The Honorable Breene Harimoto, Chair
and Members of the Senate Committee on Housing

Date: Tuesday, February 9, 2016
Time: 2:55 P.M.
Place: Conference Room 225, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.B. 3078, Relating to the Low Income Housing Credit.

The Department of Taxation (Department) appreciates the intent of the measure and defers to the Hawaii Housing Finance and Development Corporation (HHFDC) on the merits of this bill. The Department provides the following comments regarding S.B. 3078 for your consideration.

S.B. 3078 is intended to increase funding for affordable rental housing development by allowing developers of low-income housing to apply Hawaii low-income housing tax credits in four years instead of ten years, thereby making the State Low-Income Housing Tax Credit more valuable to investors by reducing the period over which the credit must be claimed. The measure is effective upon approval and applies to taxable years beginning after December 31, 2016.

Under section 201H-36, Hawaii Revised Statutes, HHFDC certifies that a housing project is entitled to the GET exemption, and that upon such certification, a taxpayer is entitled to claim the GET exemption. As the regulatory agreements and the determination of whether a taxpayer is eligible for the exemption remain with HHFDC, this measure will not have a substantial administrative impact on the Department, and the Department will be able to implement the changes by the effective date. The Department notes, however, that it applies to buildings allocated credits after June 30, 2016, and it is not clear whether HHFDC will be able to implement this revision by that time given the short time frame for implementation and the need for notifying potential offerors of the change.

Thank you for the opportunity to provide comments.

DAVID Y. IGE
GOVERNOR

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IN REPLY REFER TO:

Statement of
Craig K. Hirai
Hawaii Housing Finance and Development Corporation
Before the

SENATE COMMITTEE ON HOUSING
February 9, 2016 at 2:55 p.m.
State Capitol, Room 225

In consideration of
S.B. 3078
RELATING TO LOW-INCOME HOUSING TAX CREDIT.

The HHFDC ***offers the following comments on*** S.B. 3078.

We appreciate the intent of this bill, which is to increase the value of the State Low-Income Housing Tax Credit (LIHTC) by shortening the credit term from 10 to 4 years. However, we prefer S.B. 2833, an Administration bill previously heard and passed by this Committee. S.B. 2833, which shortens the State LIHTC from 10 to 5 years, would be easier for the HHFDC and the Department of Taxation to administer.

Thank you for the opportunity to testify.

LEGISLATIVE TAX BILL SERVICE

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Low-Income Housing Credit

BILL NUMBER: SB 3078; HB 1959 (Identical)

INTRODUCED BY: SB by HARIMOTO, CHUN OAKLAND, GALUTERIA, GREEN, INOUYE, Ihara, Slom, Wakai; HB by HASHEM, CACHOLA, CREAGAN, DECOITE, ICHIYAMA, JOHANSON, KEOHOKALOLE, KOBAYASHI, LOPRESTI, LOWEN, YAMASHITA, Belatti, Nishimoto, Oshiro, Tokioka

EXECUTIVE SUMMARY: This bill would amend the low-income housing credit to make it recoverable over four years rather than ten years. That would provide an additional incentive to developers. Consideration should be given to streamlining other impediments to development such as our permitting process.

BRIEF SUMMARY: Amends HRS section 235-110.8 to provide that the amount of the low-income housing tax credit that may be claimed by a taxpayer shall be fifty per cent of the applicable percentage of the qualified basis of each building located in Hawaii and shall be calculated pursuant to IRC section 42(b), provided that after June 30, 2016:

(1) For new buildings that ARE NOT federally subsidized for the taxable year, the taxpayer may claim the applicable percentage up to a maximum of 9% of the qualified basis of each building located in Hawaii in each of the first three years of the credit period. The credit claimed in the fourth year shall be the qualified basis of each building located in Hawaii multiplied by the difference of 35% minus the sum of the applicable percentages taken in each of the first three years.

(2) For new buildings that ARE federally subsidized for the taxable year, the taxpayer may claim the applicable percentage up to a maximum of 4% of the qualified basis of each building located in Hawaii in each of the first three years of the credit period. The credit claimed in the fourth year shall be the qualified basis of each building located in Hawaii multiplied by the difference of 15% minus the sum of the applicable percentages taken in each of the first three years.

Provides that the definitions and special rules relating to credit period in section 42(f) of the Internal Revenue Code shall be operative for the purposes of this section; provided that for credits allocated after June 30, 2016, the credit period in section 42(f) of the Internal Revenue Code shall be four taxable years.

EFFECTIVE DATE: Tax years beginning after December 31, 2016.

STAFF COMMENTS: Act 216, SLH 1988, adopted the federal low-income rental housing credit which was part of the Tax Reform Act of 1986. The credit was enacted to offset the repeal of tax shelters and other incentives to build rental housing under prior law, such as accelerated depreciation, capital gains preference, certain tax-exempt bonds, etc., and to specifically target low-income rentals.

The federal credit is a 70% present value credit for qualified new construction and rehabilitation expenditures which are not federally subsidized, and 30% for those which are federally subsidized. The existing state credit allows for a credit of 50% of the “applicable percentage of the qualified basis” allowed under federal law taken over a period of 10 years, the proposed measure would shorten the recovery period to 4 years.

While this is just one incentive to encourage developers to build affordable housing, consideration should be given to a number of strategies including the debt financing, partnerships with financial institutions who could then turn around and sell the credits, and the use of federal private activity bonds. Finally, apparently public officials still have not recognized that one of the greatest contributors to the cost of housing in Hawaii is the draconian maze of permitting and regulatory processes in order to bring those homes to market. While those regulatory guidelines are to ensure the health and safety of the public, streamlining the process would accelerate the time needed to secure those permits thereby reducing the cost of financing. This savings would go a long way toward reducing the final cost of the house to the consumer. For example, for one housing project on Kauai, it took nearly five years to secure the necessary permits to build 14 affordable homes.

Digested 2/5/16