
A BILL FOR AN ACT

RELATING TO HOMEOWNERSHIP.

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

1 SECTION 1. The legislature finds that homeownership
2 creates strong communities through economic growth.
3 Homeownership helps families to build equity and enjoy
4 stability. Homeowners have a greater sense of security,
5 continuity, belonging, and pride in their communities. However,
6 saving for a down payment is often cited as the biggest hurdle
7 for first-time home buyers, particularly for young people
8 grappling with student loan debt. The 2016 Hawaii Housing
9 Planning Study found that twenty-eight per cent of those
10 interested in buying a home could not afford the down payment.

11 The legislature further finds that individual housing
12 accounts help first-time homebuyers save money for a down
13 payment. However, due to the rising cost of buying a home in
14 Hawaii, the current ceiling for the aggregate total that can be
15 saved in an individual housing account is too low.



1 The purpose of this Act is to improve individual housing
2 accounts to help low-income families save for a down payment to
3 purchase a home.

4 SECTION 2. Section 235-5.5, Hawaii Revised Statutes, is
5 amended as follows:

6 1. By amending subsections (a) and (b) to read:

7 "(a) There shall be allowed as a deduction from gross
8 income the amount, not to exceed \$5,000, paid in cash during the
9 taxable year by an individual taxpayer to an individual housing
10 account established for the individual's benefit to provide
11 funding for the purchase of the individual's first principal
12 residence. A deduction not to exceed \$10,000 shall be allowed
13 for a married couple filing a joint return. No deduction shall
14 be allowed on any amounts distributed less than three hundred
15 sixty-five days from the date on which a contribution is made to
16 the account. Any deduction claimed for a previous taxable year
17 for amounts distributed less than three hundred sixty-five days
18 from the date on which a contribution was made shall be
19 disallowed and the amount deducted shall be included in the
20 previous taxable year's gross income and the tax reassessed.
21 The interest paid or accrued within the taxable year on the



1 account shall not be included in the individual's gross income.

2 For purposes of this section, the term "first principal
3 residence" means a residential property purchased with the
4 payment or distribution from the individual housing account
5 which shall be owned and occupied as the only home by an
6 individual who did not have any interest in, individually, or
7 whose spouse did not have any interest in, if the individual is
8 married, a residential property within the last five years of
9 opening the individual housing account.

10 In the case of a married couple filing separate returns,
11 the sum of the deductions allowable to each of them for the
12 taxable year shall not exceed \$5,000, or \$10,000 for a joint
13 return, for amounts paid in cash, excluding interest paid or
14 accrued thereon.

15 The amounts paid in cash allowable as a deduction under
16 this section to an individual for all taxable years shall not
17 exceed [~~\$25,000,~~] \$_____, excluding interest paid or accrued.

18 In the case of married individuals having separate individual
19 housing accounts, the sum of the separate accounts and the
20 deduction under this section shall not exceed [~~\$25,000,~~]
21 \$_____, excluding interest paid or accrued thereon.



1 (b) For purposes of this section, the term "individual
2 housing account" means a trust created or organized in Hawaii
3 for the exclusive benefit of an individual, or, in the case of a
4 married individual, for the exclusive benefit of the individual
5 and spouse jointly, but only if the written governing instrument
6 creating the trust meets the following requirements:

7 (1) Contributions shall not be accepted for the taxable
8 year in excess of \$5,000 (or \$10,000 in the case of a
9 joint return) or in excess of [~~\$25,000~~] \$_____ for
10 all taxable years, exclusive of interest paid or
11 accrued;

12 (2) The trustee is a bank, a savings and loan association,
13 a credit union, or a depository financial services
14 loan company, chartered, licensed, or supervised under
15 federal or state law, whose accounts are insured by
16 the Federal Deposit Insurance Corporation, the
17 National Credit Union Administration, or any agency of
18 this State or any federal agency established for the
19 purpose of insuring accounts in these financial
20 institutions. The financial institution must actively
21 make residential real estate mortgage loans in Hawaii;



1 (3) The assets of the trust shall be invested only in
2 fully insured savings or time deposits. Funds held in
3 the trust may be commingled for purposes of
4 investment, but individual records shall be maintained
5 by the trustee for each individual housing account
6 holder that show all transactions in detail;

7 (4) The entire interest of an individual or married couple
8 for whose benefit the trust is maintained shall be
9 distributed to the individual or couple not later than
10 one hundred twenty months after the date on which the
11 first contribution is made to the trust;

12 (5) Except as provided in subsection (g), the trustee
13 shall not distribute the funds in the account unless
14 the trustee:

15 (A) Verifies that the money is to be used for the
16 purchase of a first principal residence located
17 in Hawaii, and provides that the instrument of
18 payment is payable to the mortgagor, construction
19 contractor, or other vendor of the property
20 purchased; or



1 (B) Withholds an amount equal to ten per cent of the
2 amount withdrawn from the account and remits this
3 amount to the director within ten days after the
4 date of the withdrawal. The amount withheld
5 shall be applied to the liability of the taxpayer
6 under subsections (c) and (e); and

7 (6) If any amounts are distributed before the expiration
8 of three hundred sixty-five days from the date on
9 which a contribution is made to the account, the
10 trustee shall so notify in writing the taxpayer and
11 the director. If the trustee makes the verification
12 required in paragraph (5)(A), then the department
13 shall disallow the deduction under subsection (a) and
14 subsections (c), (e), and (f) shall not apply to that
15 amount. If the trustee withholds an amount under
16 paragraph (5)(B), then the department shall disallow
17 the deduction under subsection (a) and subsection (e)
18 shall apply, but subsection (c) shall not apply."

19 2. By amending subsection (i) to read:

20 "(i) The trustee of an individual housing account shall
21 make reports regarding the account to the director and to the



individual for whom the account is maintained with respect to contributions, distributions, and other matters as the director may require under rules. The reports shall be filed at a time and in a manner as may be required by rules adopted under chapter 91. A person who fails to file a required report shall be subject to a penalty of [~~\$10~~] \$_____ to be paid to the director for each instance of failure to file."

SECTION 3. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 4. This Act, upon its approval, shall apply to taxable years beginning after December 31, 2018.

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H.B. NO. 2747

Report Title:

Homeownership; Individual Housing Accounts; Deductions

Description:

Assists first-time homebuyers in saving to buy a home by increasing the aggregate total that can be saved in individual housing accounts free of state income taxation.

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