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To: The Honorable Stanley Chang, Chair
and Members of the Senate Committee on Housing

Date: Thursday, February 14, 2019
Time: 1:20 P.M.
Place: Conference Room 225, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: S.B. 771, Relating to Affordable Housing

The Department of Taxation (Department) provides the following comments regarding S.B. 771 for your consideration.

S.B. 771 creates a non refundable income tax credit for taxpayers who rent to an "eligible tenant". An "eligible tenant" is an individual or family whose total income is less than 80% of the area median income determined by the U.S. Department of Labor and Urban Development. The measure is effective upon approval and applies to taxable years beginning after December 31, 2018.

First, the Department suggests specifying how a tenant should substantiate that they are an "eligible tenant". Tax returns are not necessarily the best option because it may not reflect the tenant's current financial situation.

Second, the Department suggests specifying how the credit would work if a tenant's income increased to a point that they would no longer be deemed an "eligible tenant" for the purpose of the credit. Would all rent received from that tenant no longer qualify for the credit?

Third, the Department suggests disallowing the credit when the landlord and tenant are related. This will help to prevent improper claims.

Fourth, the Department notes that the credit amount and per taxpayer cap would only cover $20,000 in qualifying rent. This means that a landlord can only qualify for the credit for letting one unit to an "eligible tenant".

Finally, the Department respectfully requests that this new income tax credit be made available for taxable years beginning after December 31, 2019. This will give the Department sufficient time to make the necessary form, instruction, and computer system changes.

Thank you for the opportunity to provide comments.

DAVID Y. IGE
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Statement of
Hakim Ouansafi
Hawaii Public Housing Authority
Before the

SENATE COMMITTEE ON HOUSING

Thursday, February 14, 2019
1:20 PM - Room 225, Hawaii State Capitol

In consideration of
SB 771
RELATING TO AFFORDABLE HOUSING

Honorable Chair Chang and Members of the Senate Committee on Housing, thank you for the opportunity to provide testimony concerning Senate Bill (SB) 771, relating to affordable housing.

The Hawaii Public Housing Authority (HPHA) **supports** SB 771 which establishes an income tax credit for taxpayers who lease housing to certain low-income tenants.

One of the programs in which the HPHA assists our low-income families is through the Housing Choice Voucher Program, also known as “Section 8”. The Section 8 program is one of the federal government’s major programs for assisting very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market, including single-family homes, townhouses and apartments. This program currently brings approximately 32.68 million dollars a year on the island of Oahu, supports over 2,337 families and over 6,400 individuals.

Because of the overwhelming need in our community to assist our low-income families, we are hopeful that with the passage of this measure, more landlords would be willing to consider our over 200 Section 8 participants that are currently searching for housing as tenants. The Section 8 program is an important part of the State’s efforts in addressing the affordable housing needs of our low-income families, and the HPHA is willing to work and assist all landlords that would like to participate in the program.

The HPHA appreciates the opportunity to provide the Committee with the HPHA’s testimony regarding SB 771. We thank you very much for your dedicated support.

TAX FOUNDATION OF HAWAII

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

SUBJECT: INCOME, Tax Credit for Leasing Housing to Low Income Tenants

BILL NUMBER: HB 800; SB 771 (Identical)

INTRODUCED BY: HB by MATAYOSHI, BROWER, HASHEM, HASHIMOTO; SB by BAKER, S. CHANG, English, Fevella, Ruderman, Shimabukuro

EXECUTIVE SUMMARY: Establishes a nonrefundable tax credit for 10% of the rent collected per housing unit, per month, that the taxpayer rents to an eligible tenant, up to $2,000 per taxable year. The adoption of this credit would provide tax relief to taxpayers regardless of their need for tax relief. It also would shift the burden of paying for government to the rest of us.

SYNOPSIS: Adds a new section to HRS chapter 235 to allow a credit of 10% of rent collected per housing unit, per month, that the taxpayer rents to an eligible tenant.

Tax credits that exceed the taxpayer's income tax liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted.

States that for a partnership, S corporation, estate, or trust, the tax credit allowable is for every housing unit rented to an eligible tenant by the entity. The cost upon which the tax credit is computed shall be determined at the entity level. Distribution and share of credit shall be determined by rule.

Requires the director of taxation to prepare any forms necessary to claim a credit, may require a taxpayer to furnish reasonable information to validate a claim for the credit, and adopt rules pursuant to HRS chapter 91. Requires claims for the credit, including any amended claims, to be filed on or before the end of the twelfth month following the taxable year for which the credit is claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the tax credit.

Defines "eligible tenant" as a family or an individual whose income from all sources is less than eighty per cent of the area median income as determined by the United States Department of Housing and Urban Development's most recently released schedule of income limits.

EFFECTIVE DATE: Taxable years beginning after December 31, 2018.

STAFF COMMENTS: Lawmakers need to keep in mind two things. First, the tax system is the device that raises the money that they, lawmakers, like to spend. Using the tax system to shape social policy merely throws the revenue raising system out of whack, making the system less than reliable as there is no way to determine how many taxpayers will avail themselves of the credit and in what amount. The second point to remember about tax credits is that they are nothing more than the expenditure of public dollars, but out the back door. If, in fact, these dollars were subject to the appropriation process, would taxpayers be as generous about the expenditure of these funds when our kids are roasting in the public school classrooms, there isn't enough money for social service programs, or our state hospitals are on the verge of collapse?

A direct appropriation for grant assistance would be more accountable and transparent.

Furthermore, the additional credit would require changes to tax forms and instructions, reprogramming, staff training, and other costs that could be massive in amount. A direct appropriation may be a far less costly method to accomplish the same thing.

One big practical question is this. How does a taxpayer know or verify that a tenant in fact makes less than 80% of AMI? Landlords would be subject to credit disallowance, interest, and penalties if they claim the credit wrongly, so they would need a system to verify that a tenant is indeed eligible.

Next, the bill as now drafted doesn't require the landlord to share any part of the tax benefit with the tenant. If we want the tax credit relief to benefit the tenant at least in part, should there be something in the bill saying so?

Digested 2/1/2019

SB-771
Submitted on: 2/13/2019 10:35:35 AM
Testimony for HOU on 2/14/2019 1:20:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Melodie Aduja	Testifying for O`ahu County Committee on Legislative Priorities of the Democratic Party of Hawai`i	Support	No

Comments:

SB-771
Submitted on: 2/8/2019 5:44:48 PM
Testimony for HOU on 2/14/2019 1:20:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
L.M. Holmes	Individual	Support	No

Comments: