DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR

ISAAC W. CHOY
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

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

From: Isaac W. Choy, Director
Department of Taxation

Date: February 2, 2021
Time: 1:00 P.M.
Place: Via Video Conference, State Capitol

Re: S.B. 202, Relating to Taxation

The Department of Taxation (Department) offers the following comments regarding S.B. 202, for your consideration.

S.B. 202 eliminates home mortgage interest deduction for second homes by de-conforming to the Internal Revenue Code sections 163(h)(4)(A)(i)(II) and 163(h)(4)(A)(ii)(II). S.B. 202 also directs the revenue gains from the elimination of home mortgage interest deduction for second homes to be deposited into the rental housing revolving fund. The bill is effective upon its approval and applies to taxable years beginning after December 31, 2020.

The Department can implement the elimination of home mortgage interest deduction for second homes for taxable years beginning after December 31, 2020. However, as a matter of policy, specific individual taxpayers' information should not be used to direct tax revenues to any specific funds. If the Legislature wishes to direct additional tax revenues to the rental housing revolving fund, the Department suggests that it be done via appropriation of a specific amount from the general fund to the rental housing revolving fund.

Thank you for the opportunity to provide comments.

DAVID Y. IGE
GOVERNOR

DENISE ISERI-MATSUBARA
EXECUTIVE DIRECTOR

STATE OF HAWAII
DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
677 QUEEN STREET, SUITE 300
Honolulu, Hawaii 96813
FAX: (808) 587-0600

IN REPLY REFER TO:

Statement of
DENISE ISERI-MATSUBARA
Hawaii Housing Finance and Development Corporation
Before the

SENATE COMMITTEE ON HOUSING
February 2, 2021 at 1:00 p.m.
State Capitol, Room 225

In consideration of
S.B. 202
RELATING TO TAXATON.

The HHFDC ***appreciates the intent*** of S.B. 202, a bill that eliminates the mortgage interest deduction for second homes, and requires that revenue gained from its elimination be deposited in the Rental Housing Revolving Fund (RHRF).

HHFDC takes no position on the tax policy implications of this bill.

The RHRF provides equity gap low-interest financing to qualified owners and developers of affordable rental housing. We note that the Executive Biennium Budget request includes a request for infusion of General Obligation Bond funds into the RHRF of $25,000,000 in FY2022-2023.

Thank you for the opportunity to testify.

TAX FOUNDATION OF HAWAII

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

SUBJECT: INCOME, Disallows Home Mortgage Interest Deduction for Second Homes

BILL NUMBER: SB 202; HB 1388

INTRODUCED BY: SB by RHOADS, CHANG; HB by GANADEN, HOLT, ILAGAN, KAPELA, LOPRESTI, MATAYOSHI, Marten, McKelvey, Mizuno

EXECUTIVE SUMMARY: Eliminates the home mortgage interest deduction for second homes under Hawaii income tax law. Requires the amount of state revenue gained by eliminating the deduction to be deposited into the rental housing revolving fund.

SYNOPSIS: Amends section 235-2.4, HRS, to eliminate the home mortgage interest deduction for second homes for Hawaii income tax purposes.

Directs the revenue gained by eliminating the above deduction to be deposited into the rental housing revolving fund.

EFFECTIVE DATE: Upon approval.

STAFF COMMENTS: There are likely to be practical issues with capturing the data needed even to come up with an estimate of revenue gain.

First, the Tax Cuts and Jobs Act of 2018 greatly increased the standard deduction allowable to individual taxpayers, so many taxpayers would no longer need to itemize the mortgage interest deduction for federal purposes. For state purposes, the standard deduction is smaller and taxpayers would itemize the deduction for mortgage interest, and if this bill were enacted they simply would not put down any deduction for mortgage interest on a second home. For taxpayers in this situation, it would be difficult or impossible to determine how much, if any, deduction was forgone.

Then, Hawaii requires certain deduction limits including the so-called Pease limitation in IRC section 68. (The section 68 limitations have been suspended for federal purposes, but Hawaii has decoupled from that suspension in HRS section 235-2.4(c)(2).) The IRC section 68 reductions are equal to 80% of the otherwise allowable itemized deductions or 3% of the excess of the taxpayer's AGI over the threshold, whichever is smaller. For Hawaii income tax purposes, HRS section 235-2.4(c) provides that the threshold is $166,800 for all taxpayers except married taxpayers filing separately, for which it is $83,400. For higher income taxpayers, against whom this provision is probably directed, the Pease limitation will be considerable. It is highly uncertain whether there would be significant, if any, revenue gain from this provision because the mortgage interest deduction may be reduced or denied because of the Pease limitations.

The Foundation is also concerned with earmarking of revenues away from the general fund. As with any earmarking of revenues, the legislature will be preapproving each of the programs fed by the fund into which the tax monies are diverted, expenses from the funds largely avoid legislative scrutiny, and the effectiveness of the programs funded becomes harder to ascertain. It is also difficult to determine whether the fund has too little or too much revenue.

If the legislature deems the programs and purposes funded by this revolving fund to be a high priority, then it should maintain the accountability for these funds by appropriating the funds as it does with other programs. Earmarking revenues merely absolves elected officials from setting priorities. If the money were appropriated, lawmakers could then evaluate the real or actual needs of each program.

Digested 1/30/2021

Hawaiʻi Association of REALTORS®
808-733-7060
808-737-4977
1259 Aʻala Street, Suite 300
Honolulu, HI 96817

February 2, 2021

The Honorable Stanley Chang, Chair
Senate Committee on Housing
Via Videoconference

Aloha Chair Chang, Vice Chair Kanuha, and Members of the Committee,

I am Ken Hiraki, Director of Government Affairs, testifying on behalf of the Hawaiʻi Association of REALTORS® ("HAR"), the voice of real estate in Hawaiʻi, and its over 10,000 members. HAR **opposes** Senate Bill 202 which eliminates the home mortgage interest deduction for second homes under Hawaii income tax law. Requires the amount of state revenue gained by eliminating the deduction to be deposited into the rental housing revolving fund.

The Mortgage Interest Deduction (MID) on state and federal income taxes was introduced along with the income tax itself in 1913. The MID allows homeowners who itemize deductions on their taxes to deduct mortgage interest attributable to primary residence and second-home debt, and interest paid on home equity debt.

The Mortgage Interest Deduction encourages the American Dream of homeownership and gives people financial security through homeownership. The deduction helps home purchasers make their mortgage payments more affordable and is vital to the health and stability of housing markets.

In today's real estate environment, more homeowners are purchasing a second home for their elderly parents or their adult children who cannot otherwise afford to pay for a home.

HAR believes that the MID for second homes is an important opportunity for individuals to use to invest for retirement or to support their families with Hawaii's high cost of living and housing.

Mahalo for the opportunity to testify.

SB-202
Submitted on: 1/29/2021 5:39:21 PM
Testimony for HOU on 2/2/2021 1:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Leimomi Khan	Individual	Oppose	No

Comments:

Aloha, I strongly recommend that this measure be amended to apply to homeowners of three or more properties. Some local families have invested in a (single) rental property to supplement their retirement income. Allowing for the mortgage interest tax deduction is helpful, especially when retirement incomes are small and the cost of living in our homeland is extremely high. Too, as is, many of us who are landlords have not raised rents out of consideration for our renters who may be experiencing hardship because of COVID-19, this, despite the fact that maintenance fees have escalated every year. I can see applying the provisions of this bill to those who own three or more properties that you would not allow a tax deduction on the third, fourth or more properties since obviously such individuals are high investors.

Accordingly, please do not adopt this bill, unless it is amended to apply to investors for their third or more rental properties.

SB-202
Submitted on: 1/31/2021 5:47:51 PM
Testimony for HOU on 2/2/2021 1:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
cathy lee	Individual	Support	No

Comments:

A State in which houselessness is fast becoming the biggest crisis, it's impossible to separate housing affordability from those who seek vacation homes, secondary homes, rental homes in Hawaii. They are directly driving up housing costs and Hawaii residents suffer for it. Those who can afford second homes in Hawaii can afford the elimination of home mortgage interest deduction. I support this bill that directly takes the tax revenue gains from the elimination of this deduction into the rental housing revolving fund.