

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: CONSTITUTIONAL AMENDMENT, Allows State to Impose Real Property Tax

BILL NUMBER: HB 1208, HD 1 (Carried over from 2021 Session)

INTRODUCED BY: House Committee on Economic Development

EXECUTIVE SUMMARY: Proposes an amendment to the Hawaii State Constitution to repeal the exclusive power of the counties as to the functions, powers, and duties relating to the taxation of real property and authorize the State to also exercise those functions, powers, and duties.

SYNOPSIS: Amends Article VIII, section 3, of the Hawaii Constitution to provide that the legislature may impose real property taxes as well as the counties.

EFFECTIVE DATE: July 1, 2050.

STAFF COMMENTS: A tax increase of any magnitude in Hawaii's fragile economy will, no doubt, have a negative impact as costs soar due to higher taxes. As costs and overhead increase, employers must find ways to stay in business by either increasing prices to their customers or cut back on costs. This may take the form of reducing inventory, shortening business hours, reducing employee hours, or even laying off workers. A tax increase of any magnitude would send many companies, especially smaller ones, out of business taking with them the jobs the community so desperately needs at this time.

The proposed measure empowers the legislature to tax real property in addition to the counties. The proposed measure does not say "residential," "commercial," or any other class of real property. Therefore, if adopted, any real property may be taxed.

Furthermore, there are no limits to the amount of the tax. The State tax could be less than the current property tax, or it could be many times the current property tax.

In other words, once the amendment passes, the genie is out of the bottle. It may not even be under control of the members now in the legislature, because future legislators may have different ideas from current members.

We need to ask ourselves if we want to or need to give the genie that much power. If we do, then we only have ourselves to blame for what happens when the genie does come out. If we don't, then we should either kill the constitutional amendment or write strict limits into it.

Digested: 2/4/2022



HAWAII APPLESEED

CENTER FOR LAW & ECONOMIC JUSTICE

Testimony in SUPPORT of HB1208 – Proposing a Constitutional Amendment Relating to the
Functions, Powers and Duties of Real Property Taxation
House Committee on Judiciary and Hawaiian Affairs
Tuesday, February 8th 2pm

Aloha Chair Nakashima, Vice Chair Matayoshi and Members of the Committee,

The Hawaii Appleseed Center for Law and Economic Justice thanks the committee for the opportunity to submit testimony in **SUPPORT** of HB1208, which would repeal the county's exclusive authority over taxation of real property.

Since 1978 Hawaii's four counties have maintained exclusive authority to levy taxes on real property, while the state has maintained its authority over almost all other taxes. Given the state's broad responsibility in funding many public services, such as public education, the state's authority to levy most taxes makes sense.

However, since gaining control over the real property tax, counties have maintained low tax rates, relative to other jurisdictions across the country. Hawaii is continually ranked as having the lowest property taxes of any other state. Hawaii maintains an effective real property tax rate of .28%. The state with the second lowest property taxes—Alabama—has a .43% tax rate.¹ This makes Hawaii an outlier among other states with high value real estate markets.

These relatively low property tax rates contribute to making Hawaii a more attractive market to wealthy investors and non-occupant owners because low rates mean that on-going ownership costs are modest. This can work to incentivize speculation in our housing market, which can lead to increased housing costs for state residents.

Allowing the state to tax real property, represents an opportunity to realize millions in revenue that is being forgone under the current taxation regime. This additional revenue could allow the state to invest in critical services like our public education system. Most states use the real property tax to fund education, but Hawaii does not. That additional revenue could help Hawaii invest in school facilities, recruit, train and retain staff, and increase our per pupil spending.

We recognize that for some homeowners, an increase in the property tax can be yet another cost in an already high cost of living state. For this reason, we encourage the legislature to ensure that future increases in property taxes are targeted to those who own second homes and investment properties. Doing so would work to discourage speculation in our housing market, while also raising much needed revenue for critical services.

¹ <https://wallethub.com/edu/states-with-the-highest-and-lowest-property-taxes/11585>

February 8, 2022

The Honorable Mark Nakashima, Chair

House Committee on Judiciary

Via Videoconference

RE: H.B. 1208, HD1 PROPOSING AN AMENDMENT TO ARTICLE VIII, SECTION 3 OF THE HAWAII CONSTITUTION RELATING TO THE FUNCTIONS, POWERS, AND DUTIES OF REAL PROPERTY TAXATION.

HEARING: Tuesday, February 8, 2022, at 2:00 p.m.

Aloha Chair Nakashima, Vice Chair Matayoshi, and Members of the Committee,

I am Ken Hiraki, Director of Government Affairs Committee, testifying on behalf of the Hawai'i Association of REALTORS® ("HAR"), the voice of real estate in Hawai'i, and its over 10,000 members. HAR **strongly opposes** House Bill 1208, HD1, which proposes an amendment to the Hawaii State Constitution to repeal the exclusive power of the counties as to the functions, powers, and duties relating to the taxation of real property and authorize the State to also exercise those functions, powers, and duties.

According to WalletHub, Hawai'i is the second most tax burdened state after New York.¹ Hawai'i has a regressive General Excise Tax that ranks first as the highest tax burden of all States. Hawai'i also has the 2nd highest income tax rate in the country after California. In addition to property taxes, real estate also has a Conveyance Tax that taxes every type of property sale, even if the property is sold at a loss. There's also a capital gains tax that could apply on any gains realized.

The COVID-19 pandemic is still ongoing and we have seen homeowners and renters struggling, small businesses closing, and a double property tax which could apply to virtually every property type, would add another burden that adds to our high cost of living and doing business in Hawai'i.

Additionally, homeowners factor in property tax when purchasing a home to see if they can afford it. As such, a double property tax would place the dream of homeownership further out of reach for first-time homebuyers or impact small businesses looking to start up. Furthermore, a double property tax could be devastating, especially to those with fixed income.

Finally, based on Council of Revenues projections, there is a projected \$890 million surplus, so a tax increase of this magnitude seems unnecessary. At a time when we should be encouraging homeownership in our State, the proposed amendment would discourage it.

Mahalo for the opportunity to testify.

¹<https://wallethub.com/edu/states-with-highest-lowest-tax-burden/20494>



HAWAI'I LODGING & TOURISM
ASSOCIATION

LATE

Testimony of
Mufi Hannemann
President & CEO
Hawai'i Lodging & Tourism Association

House Committee on Judiciary & Hawaiian Affairs
House Bill 1208, HD1: Proposing an Amendment to Article VIII, Section 3 of the Hawaii
Constitution Relating to the Functions, Powers, and Duties of Real Property Taxation.
February 8, 2022

Chair Nakashima and members of the Committee, mahalo for the opportunity to testify on behalf of the Hawai'i Lodging & Tourism Association, the state's largest private sector visitor industry organization.

The Hawai'i Lodging & Tourism Association—nearly 700 members strong, representing more than 50,000 hotel rooms and nearly 40,000 lodging workers—counts among its membership hundreds, if not thousands of real property owners around the State of Hawai'i who pay real property taxes to their respective counties. From private, single-family homeowners to those who run large resorts with significant acreage of taxable real property, our membership illustrates the diversity of property owners across the state who will ultimately be hurt by this proposal.

As written, this measure would ostensibly allow real property owners to be taxed twice, by two discrete governmental bodies, for the same piece of property. We are all well aware of the economic turmoil caused by the COVID-19 pandemic and how many people have been forced to leave Hawai'i due to economic hardship. Creating a pathway to add an additional layer to the already high cost of living in Hawai'i will inevitably make it even more difficult for people to work, play, and raise their families here.

For these reasons, HLTA opposes HB1208, HD1.

Mahalo for the opportunity to offer this testimony.



MAUI
CHAMBER OF COMMERCE
VOICE OF BUSINESS

LATE

**HEARING BEFORE THE HOUSE COMMITTEE ON
JUDICIARY AND HAWAIIAN AFFAIRS
HAWAII STATE CAPITOL, HOUSE CONFERENCE ROOM 325
TUESDAY, FEBRUARY 8, 2022 AT 2:00 P.M.**

To The Honorable Mark M. Nakashima, Chair
The Honorable Scot Z. Matayoshi, Vice Chair
Members of the committee on Judiciary and Hawaiian Affairs

**OPPOSE HB1208 HD1 - PROPOSING AN AMENDMENT TO ARTICLE VIII, SECTION 3 OF
THE HAWAII CONSTITUTION RELATING TO THE FUNCTIONS, POWERS, AND DUTIES OF
REAL PROPERTY TAXATION**

The Maui Chamber of Commerce opposes bill HB1208 HD1 which proposes an amendment to the Hawaii State Constitution to repeal the exclusive power of the counties as to the functions, powers, and duties relating to the taxation of real property and authorize the State to also exercise those functions, powers, and duties.

Real property taxation is the only unrestricted method of taxation that the counties have to raise revenue. If the state also gives itself that power, then there will always be tension between the state and the county as to how much taxes property owners can afford. There will be limited accountability to the state legislature, in the case of Maui, Kauai and Hawaii counties, should the legislature increase property taxes to unreasonable rates.

The County of Maui is currently addressing the disparity between workforce taxpayers and non-resident property owner taxpayers. The Chamber is asking that the counties be given the chance to implement policies of this nature before the state steps in and adds more confusion to the already burdensome taxation policy of the state.

For these reasons, the Chamber requests that HB1208 HD1 be deferred.

Sincerely,

Pamela Tumpap
President

To advance and promote a healthy economic environment for business, advocating for a responsive government and quality education, while preserving Maui's unique community characteristics.

HB-1208-HD-1

Submitted on: 2/4/2022 11:39:52 AM

Testimony for JHA on 2/8/2022 2:00:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
lynne matusow	Individual	Oppose	No

Comments:

The reason Hawaii has the lowest real property tax rates in the nation is that we have a statewide education system. On the mainland education is not centralized in the state. The local property taxes include high percentages for education. Here, the state covers education and the county property taxes do not include education.

This is another tax grab by the legislature. It has to stop. This needs to be deferred now. It is based on false facts and assumptions.

TO: Members of the Committee on Judiciary & Hawaiian Affairs

FROM: Natalie Iwasa, CPA, CFE
808-395-3233

HEARING: 2 p.m. Tuesday, February 8, 2022

SUBJECT: HB 1208, Proposing Amendment to State Constitution Related to Powers and Duties of Real Property Taxation - **OPPOSED**

Aloha Chair Nakashima and Committee Members,

Thank you for allowing me the opportunity to provide testimony on HB1208, HD1, which would propose a state constitution amendment to allow the state, in addition to the counties, to tax real property.

I oppose this bill.

If the state needs more revenues from taxes, then repeal the general excise tax surcharge that is mainly being used to fund the Honolulu rail project.

Simple systems are more efficient and less costly to run, yet the state continues to want to mix things up. Please do not add to the complexity of our tax system, and vote “**no**” on this bill.

(Testifying in my individual capacity.)