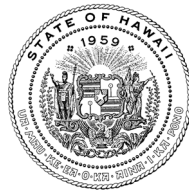


JOSH GREEN, M.D.
GOVERNOR



LUIS P. SALAVERIA
DIRECTOR

SABRINA NASIR
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
Ka 'Oihana Mālama Mo'ohelu a Kālā
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ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT

WRITTEN ONLY
TESTIMONY BY LUIS P. SALAVERIA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 924, S.D. 1

February 28, 2023
10:00 a.m.
Room 211 and Videoconference

RELATING TO TAXATION

The Department of Budget and Finance (B&F) offers comments on this bill.

Senate Bill (S.B.) No. 924, S.D. 1, proposes to eliminate the home mortgage interest deduction for second homes for individual income tax purposes. It also requires B&F, in consultation with the Department of Taxation, to submit a report on administration of the Act to the Legislature for the 2024 through 2028 regular sessions.

B&F would like to point out that the description of the bill states: “[r]equires the amount of state revenue gained by eliminating the deduction to be deposited into the Rental Housing Revolving Fund.” However, as drafted, there is no provision in S.B. No. 924, S.D. 1, to effectuate the described deposit.

Thank you for your consideration of our comments.

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION

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GARY S. SUGANUMA
DIRECTOR

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

**TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

TESTIMONY ON THE FOLLOWING MEASURE:

S.B. No. 924, S.D. 1, Relating to Taxation

BEFORE THE:

Senate Committee on Ways and Means

DATE: Tuesday, February 28, 2023

TIME: 10:00 a.m.

LOCATION: State Capitol, Room 211

Chair Dela Cruz, Vice-Chair Keith-Agaran, and Members of the Committee:

The Department of Taxation ("Department") offers the following comments regarding S.B. 924, S.D. 1, for your consideration.

S.B. 924, S.D. 1, seeks to eliminate the home mortgage deduction for second homes by amending section 235-2.4, Hawaii Revised Statutes, to exempt Hawaii from conforming to Internal Revenue Code (IRC) sections 163(h)(4)(A)(i)(II) and 163(h)(4)(A)(ii)(II). The bill further provides that the revenue gained from making IRC sections 163(h)(4)(A)(i)(II) and 163(h)(4)(A)(ii)(II) non-operative shall be deposited into the dwelling unit revolving fund. Section 3 of the bill requires the Department of Budget and Finance, in consultation with the Department of Taxation, to submit a report to the Legislature on the administration of the Act. The bill is effective upon approval and applies to taxable years beginning after December 31, 2022.

The Department notes that it would not be able to calculate the actual amount of revenue gained as a result of making IRC sections 163(h)(4)(A)(i)(II) and 163(h)(4)(A)(ii)(II) non-operative, as doing so would require the calculation of alternative tax liabilities for each taxpayer.

The Department therefore requests that the provision on page 2, lines 7 to 9, requiring a deposit into the dwelling unit revolving fund of the amount gained from

making IRC sections 163(h)(4)(A)(i)(II) and 163(h)(4)(A)(ii)(II) non-operative, be deleted.

The Department further notes that, in lieu of requiring a deposit based on the actual revenue gained, an appropriation to the dwelling unit revolving fund may be made based on the following estimates of expected revenue gain to the general fund (\$ millions):

FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
11.7	12.3	12.8	13.3	13.9	14.5

Finally, the Department notes that it is able to implement this measure, except for the revenue gain calculation noted above, by the current effective date.

Thank you for the opportunity to provide comments on this measure.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Disallows Home Mortgage Interest Deduction for Second Homes and Deposits in Dwelling Unit Revolving Fund

BILL NUMBER: SB 924 SD 1

INTRODUCED BY: Senate Committee on Housing

EXECUTIVE SUMMARY: Eliminates the home mortgage interest deduction for second homes under Hawai'i income tax law.

SYNOPSIS: Amends section 235-2.4, HRS, to eliminate the home mortgage interest deduction for second homes for Hawaii income tax purposes. Adds a proviso that the revenue gained from this elimination shall be deposited into the dwelling unit revolving fund (HRS section 201H-191).

EFFECTIVE DATE: Taxable years beginning after December 31, 2022.

STAFF COMMENTS: Section 235-3(a), HRS, explains that it is the intent of the Income Tax Law, "in addition to the essential purpose of raising revenue, to conform the income tax law of the State as closely as may be with the Internal Revenue Code in order to simplify the filing of returns and minimize the taxpayer's burdens in complying with the income tax law. The rules and regulations, forms and procedures adopted and established under this chapter shall conform as nearly as possible, and unless there is good reason to the contrary, to the rules and regulations, forms and procedures adopted and established under the Internal Revenue Code."

This bill proposes to decouple from the Internal Revenue Code in disallowing a deduction allowable for federal purposes. The issue before this body is whether the incremental revenue raised by doing so justifies the added compliance costs and complexity.

As an example of this complexity, consider that Hawaii requires certain deduction limits including the so-called Pease limitation in IRC section 68. (The section 68 limitations operate for federal purposes, but at different thresholds; the State thresholds are those that were used by the IRS in calendar year 2009.) IRC section 68 reduces itemized deductions by 3% of the excess of the taxpayer's AGI over the threshold, up to 80% of the amount of itemized deductions otherwise allowable. 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. Such taxpayers will probably be claiming other itemized deductions as well, so there will be issues arising as to which deductions were limited by the Pease provision and to what extent. Further, it is highly uncertain whether there would be significant revenue gain from this provision because the mortgage interest deduction may be reduced or denied because of the Pease limitation.

Re: SB 924 SD 1
Page 2

Digested: 2/23/2023

February 28, 2023

The Honorable Donovan Dela Cruz, Chair

Senate Committee on Ways and Means

State Capitol, Conference Room 211 & Videoconference

RE: Senate Bill 924, SD1, Relating to Taxation

HEARING: Tuesday, February 28, 2023, at 10:00 a.m.

Aloha Chair Dela Cruz, Vice Chair Keith-Agran, and Members of the Committee:

My name is Lyndsey Garcia, Director of Advocacy, testifying on behalf of the Hawai'i Association of REALTORS® ("HAR"), the voice of real estate in Hawai'i and its over 11,000 members. HAR strongly **opposes** Senate Bill 924, SD1, 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 Dwelling Unit 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. For home mortgage interest, one can deduct interest paid on up to \$750,000 of home mortgage debt (or \$1 million of debt for mortgages taken out before December 16, 2017.)

The Mortgage Interest Deduction encourages the 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. As such, 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.

Additionally, it is uncertain whether there would be a significant revenue gain from this measure and it may not be worth the complexity and uncertainty to decouple the mortgage interest deduction for second homes in Hawai'i from the Internal Revenue Code.

For the foregoing reasons, Hawai'i Association of REALTORS® strongly opposes this measure. Mahalo for the opportunity to testify.



HAWAII ASSOCIATION OF PUBLIC ACCOUNTANTS

Organized August 7, 1943
P.O. BOX 61043
HONOLULU, HAWAII 96839

LATE



Committee on Ways and Means
Tuesday, February 28, 2023; 10:00 a.m.
Conference Room 211
State Capitol

Re: Opposition to SB924, SD1 – Relating to Taxation

Chair Dela Cruz, Vice Chair Keith-Agaran, and Committee Members:

The Hawaii Association of Public Accountants (HAPA) is the only statewide public accounting organization with active chapters on Oahu, Maui, Big Island, and Kauai. It has over 450 members, consisting primarily of small to mid-sized CPA firm owners and employees who are in the active practice of public accountancy.

My name is Marilyn M. Niwao, M.S.P.H., J.D., CPA, and I am State President of the Hawaii Association of Public Accountants. I am a Hawaii licensed CPA and Attorney, and a principal of a well-established Maui CPA firm, Niwao & Roberts, CPAs, a P.C.

I am also Vice Chair of the Hawaii Council on Revenues, a former Commissioner of the Hawaii Tax Review Commission, and a Past President of the National Society of Accountants. However, I am testifying here solely in my capacity as State President of the Hawaii Association of Public Accountants, while drawing upon my knowledge obtained while serving in the above positions.

SB924, SD1 relating to eliminating the home mortgage interest deduction on second homes **would only affect local Hawaii residents with mortgages because nonresidents with second homes do not file Hawaii returns since they are tax residents in other states.** Furthermore, many wealthy part-year residents with second homes in Hawaii do not even have mortgages, and therefore pay no second-home mortgage interest. SB924, SD1 will only further burden Hawaii residents.

Neighbor island residents we've observed who have purchased (or kept) second homes in Honolulu usually do it to provide a place to stay for medical treatment on Oahu since hotel prices and related taxes are so high, and there is a critical need for physicians and medical specialists on the neighbor islands. The problem is becoming more acute as neighbor island residents age. We have observed that many times neighbor island residents share use of the condo with other family members and close friends. Until the lack of physicians and medical care on the neighbor islands is solved, neighbor islanders need medical housing, often long term, in Honolulu.

The other scenario we've seen is parents splitting the cost of a condo with children who cannot yet afford to purchase a condo on their own. When this occurs, the parents and the adult children each claim a proportionate share of interest on their respective tax

returns. Please note that parents who have signed the second mortgage did so relying upon the deductibility of the second mortgage interest. If, after the fact, second mortgage interest becomes nondeductible, there is an increased risk of mortgage defaults for both the parents and their adult children.

Treating Hawaii second mortgage interest differently from Federal tax treatment would also add unnecessary complexity, increasing the costs of preparing the Hawaii resident returns and creating another audit issue for the Hawaii Department of Taxation.

If more of this tax money is to be put into an affordable housing fund, won't taxes that are paid by residents actually be used to subsidize future affordable housing purchases by non-Hawaii residents who dream of living in Hawaii? In other words, "If you build it, they will come." Any affordable housing fund should foremost benefit current Hawaii residents.

Thank you for your consideration of the above. If you have any questions, please contact me at (808) 242-4600, ext. 224 or email me at niwao@mauicpa.com.

Respectfully submitted,

Marilyn M Niwao

Marilyn M. Niwao, M.S.P.H., J.D., CPA
HAPA State President

SB-924-SD-1

Submitted on: 2/25/2023 4:15:16 PM

Testimony for WAM on 2/28/2023 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Will Caron	Individual	Support	Written Testimony Only

Comments:

If folks have the resources to buy second and third homes, they can go ahead and do that. But it doesn't make sense—in the middle of a housing crisis that requires public resources to address—for the state to be subsidizing second-home mortgages. That's tax revenue that needs to be going toward investments in affordable housing development and rent relief subsidies instead, as well as expansion of houseless services. Please pass SB924 SD1.