

JOSH GREEN, M.D.
GOVERNOR



DENISE ISERI-MATSUBARA
EXECUTIVE DIRECTOR

LATE

STATE OF HAWAII
DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
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IN REPLY PLEASE REFER TO:

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

SENATE COMMITTEE ON HOUSING

February 02, 2023 at 1:00 p.m.
State Capitol, Room 225

In consideration of
S.B. 362
RELATING TO THE CONVEYANCE TAX.

HHFDC **supports** removal of the cap on the amount of conveyance tax revenues that are paid into the Rental Housing Revolving Fund (RHRF) but **has strong concerns** about the new conveyance tax exemption proposed by S.B. 362.

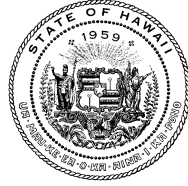
Conveyance tax revenues generate a reliable source of funding for the RHRF program. RHRF provides the "gap" financing necessary for rental housing projects to feasibly be developed under the Low-Income Housing Tax Credit program. Accordingly, HHFDC supports the provision in this bill that removes the \$38 million annual cap on conveyance tax revenues paid into RHRF.

However, HHFDC **has strong concerns** about Section 2, which exempts from the conveyance tax documents and instruments conveying real property in certain circumstances. Exempting affordable housing project transactions from the conveyance tax ignores the fact that, in most cases, the properties have substantial monetary value which is reflected in the sales price upon which the conveyance tax is calculated.

Thank you for the opportunity to provide testimony.

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION

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GARY S. SUGANUMA
DIRECTOR OF TAXATION

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

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

TESTIMONY ON THE FOLLOWING MEASURE:

S.B. No.362, Relating to the Conveyance Tax

BEFORE THE:

Senate Committee on Housing

DATE: Thursday, February 2, 2023

TIME: 1:00 p.m.

LOCATION: State Capitol, Room 225

Chair Chang, Vice-Chair Kanuha, and Members of the Committee:

The Department of Taxation ("Department") offers the following comments regarding S.B. 362 for your consideration.

S.B. 362 seeks to: (1) amend the rate of conveyance tax for condominiums and single family residences with a value of \$2,000,000.00 or greater that are ineligible for a county homeowner's exemption; (2) add an exemption from the conveyance tax for documents and instruments conveying real property for the development or acquisition of affordable housing for qualified persons and subject to a government assistance program approved and certified by the Hawaii Housing Finance and Development Corporation and used for the division of affordable housing for qualified persons in the State; (3) remove the maximum dollar amount of conveyance tax revenues that are to be paid into the rental housing revolving fund each fiscal year.

The Department is able to administer this measure with its current effective date of January 1, 2024.

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: CONVEYANCE, Tax Hike, Affordable Housing Exemption, Modify Earmark

BILL NUMBER: SB 362, HB 286

INTRODUCED BY: SB by CHANG; HB by KILA, CHUN, HASHIMOTO, HOLT, POEPOE, TODD

EXECUTIVE SUMMARY: Increases the rate of conveyance tax for condominiums and single family residences ineligible for a county homeowner's exemption with a value of at least \$2,000,000. Exempts from the conveyance tax documents and instruments conveying real property subject to a government assistance program approved and certified by Hawaii Housing Finance and Development Corporation and used for the provision of affordable housing for qualified persons in the State. Removes maximum dollar amount of conveyance tax revenues that are to be paid into the rental housing revolving fund each fiscal year.

SYNOPSIS: Amends section 247-2, HRS, to raise the conveyance tax rates for a condominium or single-family residence for which the purchaser is ineligible for a county homeowner's exemption on real property tax:

Minimum Property Value	Current Tax (per \$100 of consideration)	New Tax (per \$100 of consideration)
\$0	\$ 0.15	\$ 0.15
\$600,000	0.25	0.25
\$1,000,000	0.40	0.40
\$2,000,000	0.60	1.20
\$4,000,000	0.85	1.70
\$6,000,000	1.10	2.20
\$10,000,000	1.25	2.50

Amends section 247-3, HRS, to add an exemption for any document or instrument conveying real property for the development or acquisition of affordable housing for qualified persons and subject to a government assistance program approved and certified by the Hawaii housing finance and development corporation and administered or operated by the corporation, or any of its instrumentalities, corporate or otherwise.

Defines “Affordable housing” as in section 201H-57.

Defines “Qualified person” as an individual who has no ownership interest in any real property.

Amends section 247-7, HRS, to delete the \$38 million cap on the earmark on the tax in favor of the rental housing revolving fund.

EFFECTIVE DATE: January 1, 2024.

STAFF COMMENTS: The conveyance tax was enacted by the 1966 legislature after the repeal of the federal law requiring stamps for transfers of real property. It was enacted for the sole purpose of providing the department of taxation (which at the time also administered the real property tax) with additional data for the determination of market value of properties transferred. This information was also to assist the department in establishing real property assessed values and at that time the department stated that the conveyance tax was not intended to be a revenue raising device.

Prior to 1993, the conveyance tax was imposed at the rate of 5 cents per \$100 of actual and full consideration paid for a transfer of property. At the time all revenues from the tax went to the general fund. The legislature by Act 195, SLH 1993, increased the conveyance tax to 10 cents per \$100 and earmarked 25% of the tax to the rental housing trust fund and another 25% to the natural area reserve fund. Because of legislation in 2005 and in 2009, the conveyance tax rates were substantially increased and bifurcated between nonowner-occupied residential properties and all other properties. Tax brackets were based on the amount of the value transferred.

This bill proposes to raise conveyance tax rates yet again, and in dramatic fashion, once property values exceed a certain amount.

There are two points lawmakers may wish to consider. First, the proposed new brackets have discontinuities at the bracket break points, which means that if taxable income increases by \$1 at a break point, such as from \$9,999,900 to \$10,000,000, the increase in tax will be substantially more than \$100. In this example the tax would go from \$219,997.80 to \$250,000.00. Substantial discontinuities such as these may motivate behavior for taxpayers near a break point. This behavior might not be desirable from an economic standpoint. Consideration should be given to making the conveyance tax brackets more like the existing income tax brackets which do not have this problem.

Second, it should be kept in mind that a large dollar value transaction doesn't necessarily mean that a filthy rich person ripe for the fleecing is on one or the other end. A multi-unit condominium housing development, for example, easily could sell for an eight-digit number.

Digested: 1/28/2023

February 2, 2023

The Honorable Stanley Chang, Chair

Senate Committee on Housing

State Capitol, Conference Room 225 & Videoconference

RE: Senate Bill 362, Relating to the Conveyance Tax

HEARING: Thursday, February 2, 2023, at 1:00 p.m.

Aloha Chair Chang, Vice Chair Kanuha, 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 362, which increases the rate of conveyance tax for condominiums and single family residences ineligible for a county homeowner's exemption with a value of at least \$2,000,000. Exempts from the conveyance tax documents and instruments conveying real property subject to a government assistance program approved and certified by the Hawai'i Housing Finance and Development Corporation and used for the provision of affordable housing for qualified persons in the State. Removes maximum dollar amount of conveyance tax revenues that are to be paid into the rental housing revolving fund each fiscal year. Effective 1/1/2024.

This measure proposes to double the Conveyance Tax for single-family and condominiums over \$2 million for which the purchaser is ineligible to qualify for a homeowner exemption. The following are examples of the rate increases:

Property Value:	Current Per \$100:	Proposed:	Current Rate (in Dollars):	Proposed (in Dollars) :
\$2 mil - \$3.99 mil	\$0.60	\$1.20	\$12,000 (\$2mil property)	\$24,000
\$4 mil - \$5.99 mil	\$0.85	\$1.70	\$34,000 (\$4mil property)	\$68,000
\$6 mil - \$9.99 mil	\$1.10	\$2.20	\$66,000 (\$6mil property)	\$132,000
\$10 mil +	\$1.25	\$2.50	\$125,000 (\$10mil property)	\$250,000

The Conveyance Tax applies to not only residential property such as single-family homes and condominiums, but to the conveyance of multi-family rentals, land for residential subdivisions, mixed-income and multi-use properties, commercial properties, resort properties, and agricultural lands. With inflation hitting a 40-year high and rising interest rates, Hawaii's real estate market with a 22.64% decrease in sales from the previous year for single-family homes and 20.06% decrease for condominiums.¹ Increasing the conveyance tax would be counterproductive during our current real estate market which has slowed.

¹ <https://www.hawaii Realtors.com/wp-content/uploads/2023/01/2022-Annual-Statewide-Statistics-Report.pdf>

Furthermore, this would affect development projects including housing rentals or for sale projects, which purchase uninhabitable property and make it habitable. According to the Department of Business Economic Development and Tourism's 2019 report on Housing Demand in Hawai'i, the state needs up to 45,497, housing units to meet demand in Hawai'i by 2030². Ultimately, we have a housing supply problem, and the Conveyance Tax adds to the cost of housing.

HAR would also note that the Conveyance Tax applies even if someone sells a property at a loss. Often, it is the seller that pays the conveyance tax. This makes it a punishing tax, especially for someone that is already struggling financially and needs to sell their assets. One pays the same Conveyance Tax regardless of whether it is sold at a loss or a profit.

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

² <https://files.hawaii.gov/dbedt/economic/reports/housing-demand-2019.pdf>

*Expanding the range of opportunities for all by
developing, managing and promoting quality
affordable housing and diverse communities.*



Testimony of EAH Housing | Hawai'i Region
RELATING TO SB362

Thursday February 02, 2023 at 1:00 PM,
Written Testimony Only

Senate Committee on Housing
Chair Stanley Chang, Vice Chair Dru Kanuha,
Members Henry Aquino, Karl Rhoads, and Brenton Awa

We appreciate the opportunity to provide testimony in **Support** of SB362 amendments to §247-3 (18) Exemptions and §247-7 (2) Disposition of Taxes.

The §247-3 (18) Exemptions amendment will help to alleviate a cost to affordable housing development by exempting payment of conveyance tax in the acquisition of real property. There is no one regulatory change that will eliminate financial barriers in developing affordable housing, so this cost reduction in acquiring real property is a move in a positive direction.

The §247-7 (2) Disposition of Taxes amendment will allow additional funding to be paid into the Rental Housing Revolving Fund in support of gap financing for the development of affordable rental housing. Gap financing, also known as "soft loans," is a crucial source, among multiple sources in covering the cost of rental affordable housing. Increasing the affordable housing inventory requires more projects, thereby increasing the need for gap financing.

Thank you for the opportunity to provide input on SB362.

A handwritten signature in black ink that reads "Karen Seddon". The signature is written in a cursive, flowing style.

Karen Seddon
Regional Vice President
EAH Housing

EAH Housing is a non-profit corporation founded with the belief that attractive affordable rental housing is the cornerstone to sustainable, healthy, and livable communities.

1001 Bishop Street, Suite 2880
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(808) 466-7774



CATHOLIC CHARITIES HAWAII

TESTIMONY IN SUPPORT OF SB 362: RELATING TO THE CONVEYANCE TAX

TO: Senate Committee on Housing
FROM: Rob Van Tassell, President and CEO, Catholic Charities Hawai'i
Hearing: **Thursday, 2/2/23; 1:00 PM; CR 225 & via videoconference**

Chair Chang, Vice Chair Kanuha, and Members, Committee on Housing:

We appreciate the opportunity to provide testimony **in support of SB 362**, which increases the rate of conveyance tax for residential property not eligible for a homeowner's exemption with a value of \$2 million or more, and removes the cap on tax revenues paid into the Rental Housing Revolving Fund. It exempts from the conveyance tax documents/instruments those government assisted programs approved/certified by the Hawaii Housing Finance and Development Corporation (HHFDC), which are used for affordable housing for qualified persons in the State. I am Rob Van Tassell, with Catholic Charities Hawai'i.

Catholic Charities Hawai'i (CCH) is a tax exempt, non-profit agency that has been providing social services in Hawai'i for over 75 years. CCH has programs serving elders, children, families, homeless, and immigrants. Our mission is to provide services and advocacy for the most vulnerable in Hawai'i. Catholic Charities Hawai'i has long been a supporter of funding to create substantial rental housing in our State.

Additional State revenues are greatly needed to address our state's housing crisis. Our high housing costs, along with the high cost of living are creating out-migration of our population. These are driving our workers to move out of the state just when we need them the most. Our high housing costs are creating family instability and educational threats when families must move, disrupting the education of their children. Our high housing costs are creating homelessness, including a projected 300% for elders over the next 10 years. We need to take action now to create the thousands of affordable rental units needed.

Increasing the overall revenue of the conveyance tax and removing the current \$38 million cap on conveyance tax revenues to the Rental Housing Revolving Fund (RHRF) would allow this Fund to provide more gap equity to create new affordable rental projects. This is the critical piece needed to enable the State to increase its production of affordable rental housing. The RHRF has successfully created thousands of units of affordable housing. Currently, the RHRF cannot fund all the project applications received by HHFDC. Now, the Hawaii Public Housing Authority and other state entities like the University of Hawaii are looking into how to create more new affordable housing. Expanding revenues to the RHRF is essential to meet these growing needs and demands for state funding, and to give hope to the people of Hawai'i.

We urge your support of this bill and the overall issue of affordable housing. Please contact our Legislative Liaison, Betty Lou Larson at (808) 373-0356 or bettylou.larson@catholiccharitieshawaii.org if you have any questions.



CLARENCE T. C. CHING CAMPUS • 1822 Ke'eaumoku Street, Honolulu, HI 96822
Phone (808)373-0356 • bettylou.larson@CatholicCharitiesHawaii.org



PARTNERS IN CARE

Oahu's Continuum of Care

Our mission is to eliminate homelessness through open and inclusive participation and the coordination of integrated responses.

TESTIMONY IN SUPPORT OF SB 362: RELATING TO THE CONVEYANCE TAX

TO: Senate Committee on Housing
FROM: Partners In Care (PIC)
Hearing: **THURSDAY, 2/2/23; 1:00 pm; CR 225 or via videoconference**

Chair Chang, Vice Chair Kanuha, and Members, Committee on Housing:

Thank you for the opportunity to provide testimony **in strong support SB 362**, which raises the conveyance tax on residences worth \$2 million or more, and eliminates the cap on conveyance tax revenues paid into the Rental Housing Revolving Fund (RHRF). Partners In Care (PIC), is a coalition of more than 60 non-profit homelessness providers and concerned organizations. We urge your continued prioritization funding for affordable rental production to prevent homelessness and give hope to the people of Hawai`i.

Hawai`i needs to significantly increase its investment in affordable housing development, and by investing in it now, the legislature will be strengthening our economy. Our workforce is in trouble. The high cost of living is forcing many to consider moving away from Hawai`i. Affordable housing is key. Partners In Care urges your support to create this new revenue source and remove the cap on these revenues to the RHRF, which would significantly add resources to the RHRF to meet the critical needs of our population.

60% of Hawaii's families pay more than one-third of their income on rent. Hit hard by the pandemic, they are in still in financial jeopardy. Growing homelessness is a real concern. Building affordable rentals builds resiliency for the future, as well as bringing hope to Hawaii's families. The RHRF is the major pathway for the State to promote the development of affordable rental units. RHRF has build thousands of units, yet 20,000 rentals are still needed by 2025 for Hawaii's lower income families (making \$61,000/year or less)

Partners In Care is also very concerned about increasing homelessness for elders. Vulnerable elders on walkers sometimes come into emergency shelters. Besides being the most vulnerable, elders face significant health trauma from homelessness. **Studies predict almost a 300% increase in elderly homelessness over the next 10 years.** Even worse, these projections were prior to the pandemic which has hit older workers hard.

Housing is healthcare—and can prevent much more expensive institutionalization for Hawai`i seniors. Partners In Care urges your strong support increasing funding for the creation of affordable rentals. Besides the important economic impact, this funding will provide hope to our struggling families, elders and disabled persons.