

JOSH GREEN M.D.  
GOVERNOR

SYLVIA LUKE  
LT. GOVERNOR



STATE OF HAWAII  
**DEPARTMENT OF TAXATION**

Ka 'Oihana 'Auhau  
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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. 123, Relating to Taxation

**BEFORE THE:**

Senate Committee on Housing

**DATE:** Tuesday, January 28, 2025

**TIME:** 1:00 p.m.

**LOCATION:** State Capitol, Room 225

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

The Department of Taxation ("DOTAX") offers the following comments regarding S.B. 123 for your consideration.

Section 1 of S.B. 123 eliminates the home mortgage interest deduction for second homes by removing Hawaii's conformance to Internal Revenue Code sections 163(h)(4)(A)(i)(II) and 163(h)(4)(A)(ii)(II). These provisions define "qualified residence" for purposes of the home mortgage interest deduction to include one other residence in addition to the taxpayer's principal residence.

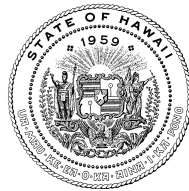
Section 2 of the bill requires the Department of Budget and Finance, in consultation with DOTAX, to submit a report to the Legislature on the administration of the Act. The bill is effective upon approval and applies to taxable years beginning after December 31, 2024.

DOTAX will be able to implement section 1 of the bill by the current effective date.

With respect to section 2 of the bill, DOTAX requests that the bill be amended to identify the type of information that should be included in the report to the Legislature. DOTAX notes that it would not be able to provide certain types of information, such as

the amount of revenue gained as a result of eliminating the deduction for mortgage interest.

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



**JOSH GREEN, M.D.**  
GOVERNOR

**SYLVIA LUKE**  
LIEUTENANT 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**  
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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 HOUSING**  
**ON**  
**SENATE BILL NO. 123**

**January 28, 2025**  
**1:00 p.m.**  
**Room 225 and Videoconference**

**RELATING TO TAXATION**

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

Senate Bill No. 123 amends Section 235-2.4, HRS, to add Sections 163(h)(4)(A)(i)(II) and 163(h)(4)(A)(ii)(II) of the Internal Revenue Code (IRC) to the list of IRC sections not operative for purposes of State income taxes. B&F does not take a position on the overall merits of the proposed amendments to the State income tax code proposed in this bill.

It is important to point out that B&F does not have any research staff with legal access to tax return information, which would be necessary to prepare and submit the report requested in Section 2 of the bill. The Department of Taxation would be the appropriate agency to do this research.

Thank you for your consideration of our comments.



January 28, 2025

**The Honorable Stanley Chang, Chair**

Senate Committee on Housing

State Capitol, Conference Room 225 & Videoconference

**RE: Senate Bill 123, Relating to Taxation**

**HEARING: Tuesday, January 28, 2025, at 1:00 p.m.**

Aloha Chair Chang, Vice Chair Hashimoto, 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 Hawaii and its over 10,000 members. HAR **opposes** Senate Bill 123, which eliminates the home mortgage interest deduction for second homes under Hawaii income tax law. Requires reports to the Legislature.

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 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 Hawaii from the Internal Revenue Code.

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

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

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

BILL NUMBER: SB 123

INTRODUCED BY: RHOADS, CHANG, LEE, C.

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.

EFFECTIVE DATE: Taxable years beginning after December 31, 2024.

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, especially to higher income taxpayers, because of the Pease limitation.

Digested: 1/23/2025



**MAUI**  
CHAMBER OF COMMERCE  
VOICE OF BUSINESS

**LATE**

**HEARING BEFORE THE SENATE COMMITTEE ON HOUSING  
HAWAII STATE CAPITOL, SENATE CONFERENCE ROOM 225  
Tuesday, January 28, 2025, 1:00 P.M.**

To The Honorable Senator Stanley Chang, Chair  
The Honorable Senator Troy N. Hashimoto, Vice Chair  
Members of the committee on Housing

**COMMENTS ON SB123 RELATING TO TAXATION**

The Maui Chamber of Commerce would like to offer **COMMENTS on SB123**, which eliminates the home mortgage interest deduction for second homes under Hawai'i income tax law.

The Chamber appreciates the intent of this bill. We understand that some residents own second homes, which they rent out long-term to other residents. We believe there should be an exemption that allows long-term rentals to continue receiving the tax credit. If this tax credit is eliminated for these individuals, they may pass the increased costs on to their tenants, potentially raising rent.

In light of the severe housing shortage in both the state and Maui County, we fully support measures that promote, rather than hinder, the development of housing for our residents.

Thank you for the opportunity to offer **COMMENTS on SB123**.

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.

**LATE**

**SB-123**

Submitted on: 1/27/2025 7:51:31 PM

Testimony for HOU on 1/28/2025 1:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Constance Bee	Individual	Support	Written Testimony Only

Comments:

I Support Tougher penalties for anyone involved in sex trafficking in any way shape form.