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Statement of

DEAN MINAKAMI

Hawaii Housing Finance and Development Corporation
Before the

HOUSE COMMITTEE ON FINANCE

February 27, 2026 at 2:00 p.m.

State Capitol, Room 308

In consideration of

HOUSE BILL 916 HOUSE DRAFT 1

RELATING TO THE LOW-INCOME HOUSING TAX CREDIT.

Chair Todd, Vice Chair Takenouchi, and members of the Committee.

HHFDC **supports** House Bill 916 House Draft 1, which allows the State Low-Income Housing Tax Credit (LIHTC) to be applied against the Transient Accommodations Tax (TAT) in the county where the qualified low-income housing project is located.

This bill directly addresses one of Hawaii's most persistent barriers to affordable housing development: access to sufficient investor capital. Under current law, State LIHTC may only be used to offset state income tax liability. Expanding the credit to also offset TAT liability will widen the pool of potential investors and strengthen the financial feasibility of affordable rental housing projects.

This bill recognizes that broadening investor participation is essential to closing financing gaps in today's challenging development environment. Housing developers across the state consistently report that equity gaps are among the most frequent reasons projects stall or fail. This bill offers a smart, targeted solution that leverages the existing LIHTC program to attract more private capital without creating new tax programs.

Thank you for the opportunity to testify.

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

TESTIMONY ON THE FOLLOWING MEASURE:

H.B. No. 916, H.D.1, Relating to the Low-Income Housing Tax Credit.

BEFORE THE:

House Committee on Finance

DATE: Friday, February 27, 2026

TIME: 2:00 p.m.

LOCATION: State Capitol, Room 308

Chair Todd, Vice-Chair Takenouchi, and Members of the Committee:

The Department of Taxation (DOTAX) offers the following comments regarding H.B. 916, H.D.1, for your consideration.

Section 2 of H.B. 916, H.D.1, amends section 237D, Hawaii Revised Statutes (HRS), with a provision allowing for the application of the low-income housing tax credit (LIHTC) to a taxpayer's Transient Accommodations Tax (TAT) liability.

Section 3 of H.B. 916, H.D.1, amends section 235-110.8, HRS, to expand the applicability of the LIHTC. Specifically, it allows the existing income tax credit to be applied to TAT liabilities. If applied to TAT liabilities, the liabilities must be assessed "in the county in which the qualified low-income building is located."

The measure has a defective effective date of July 1, 3000, provided that section 3 shall apply to taxable years beginning after December 31, 2025.

First, DOTAX notes the proposed bill presents significant administrative challenges with regard to applying an income tax credit to TAT liabilities. Extensive changes to the TAT reporting and payment system would be needed for taxpayers to

claim an income tax credit on their TAT liabilities

Second, DOTAX notes that, under existing law, TAT is imposed on the operator but is generally passed on to the customer as part of the charge for transient accommodations, and it is unlawful for a business to collect more TAT from customers than is actually due to the State. If a business intends to reduce or eliminate its TAT remittance through the use of this credit, the business may not lawfully continue to collect the full TAT from its customers on those same transactions, or may be required to issue refunds to customers for amounts passed on.

Third, verification of credits would also be difficult since low-income housing tax credits are often allocated among investors in an entity. Individuals or investors using the credit for TAT purposes will have completely different identifying information (e.g., SSN, TAT ID number, FEIN) than the accounts of the original entity that earned the credit. Furthermore, the payment and reporting of TAT occurs on a periodic basis, sometimes as often as every month, whereas an entity's reporting of its low-income housing tax credits will likely only occur on an annual basis. The difficulty of authenticating credit claims across different tax types, deadlines, and taxpayers with entirely different identifying information poses a significant risk for abuse.

Fourth, DOTAX also notes the difficulty of tracking the county in which the qualified low-income structure is located for earning the credit and limiting TAT credit claims based on the county in which a TAT liability is assessed.

Finally, if the measure passes DOTAX requests that the act apply to taxable years beginning after December 31, 2027, to provide sufficient time to make the necessary form, instruction, and system changes to expand the use of the low income housing tax credit.

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

TAX FOUNDATION OF HAWAII

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SUBJECT: NET INCOME, TRANSIENT ACCOMMODATIONS, Allow Low-Income Housing Tax Credit to Offset TAT

BILL NUMBER: HB 916 HD 1

INTRODUCED BY: HSG

EXECUTIVE SUMMARY: Allows tax credits claimed under the state low-income housing tax credit program to be used to offset taxes imposed by the state transient accommodations tax law. Specifies that tax credit amounts applied to state transient accommodations taxes be limited to state transient accommodations taxes imposed in the same county in which the qualified low-income building is located.

SYNOPSIS: Amends section 235-110.8, HRS, to allow the low-income housing tax credit to be used to offset liability under the Transient Accommodations Tax Law, chapter 237D, HRS, in the county where the qualified low-income building is located.

EFFECTIVE DATE: July 1 3000, provided that section 2 shall apply to taxable years beginning after December 31, 2025.

STAFF COMMENTS: The bill recites that its purpose is to facilitate the construction of low-income housing by allowing the state low-income housing tax credit to be used to offset transient accommodations tax liability, which will increase the pool of investors for low-income housing projects.

The transient accommodations tax is a tax on furnishing transient accommodations and is generally passed on to the hotel guest. However, consumer protection issues could arise if a taxpayer passes on TAT to guests on their folios but is allowed to offset the credit through this bill.

If the objective is to monetize the low income housing tax credit, we recommend keeping the solution simple, like making the credit refundable, or perhaps making it refundable with a haircut as is done for the renewable energy credit.

Digested: 2/25/2026