

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION

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DEPUTY DIRECTOR

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

TESTIMONY ON THE FOLLOWING MEASURE:

S.B. No. 2451, Relating to Taxation

BEFORE THE:

Senate Committee on Housing

DATE: Thursday, February 5, 2026

TIME: 1:01 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. 2451 for your consideration.

Section 2 of S.B. 2451 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, a minimum of 20 days prior to the start of each legislative session for the years 2027 through 2031. The bill is effective upon approval and applies to taxable years beginning after December 31, 2025.

DOTAX will be able to implement section 2 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, if authorized in the bill, DOTAX could amend its forms to require that taxpayers report the amount of deduction for a second home claimed on the taxpayer's federal return, but would not be able to determine the amount of revenue gained as a result of eliminating the deduction.

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

LATE

LEGISLATIVE TAX BILL SERVICE

TAX FOUNDATION OF HAWAII

735 Bishop Street, Suite 417

Honolulu, Hawaii 96813 Tel. 536-4587

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

BILL NUMBER: SB 2451

INTRODUCED BY: RHOADS, CHANG, San Buenaventura

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

SYNOPSIS: Amends section 235-2.4(j), HRS, to exclude the following as a "qualified residence" for purposes of mortgage interest deduction.

IRC section 163(h)(4)(A)(i)(II) definition of qualified residence for home mortgage interest deduction, and

IRC section 163(h)(4)(A)(ii)(II) (treatment of home mortgage interest deduction for married individuals filing separately)

Section 3 of the measure requires reports on the administration of this Act to the Legislature for regular sessions of 2027, 2028, 2029, 2030, and 2031.

EFFECTIVE DATE: Taxable years beginning after December 31, 2025.

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 that was formerly in IRC section 68. Former 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

Re: SB 2451

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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 limitation 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.

Digested: 2/3/2026



HAWAII GOVERNMENT EMPLOYEES ASSOCIATION

AFSCME Local 152, AFL-CIO

RANDY PERREIRA, Executive Director • Tel: 808.543.0011 • Fax: 808.528.0922

The Thirty-Third Legislature, State of Hawaii
The Senate
Committee on Housing

Testimony by
Hawaii Government Employees Association

February 5, 2026

S.B. 2451 — RELATING TO TAXATION

The Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO opposes S.B. 2451 which eliminates the home mortgage interest deduction for second homes under Hawai'i income tax law.

While we appreciate the intent of this bill which is to shore up revenue during a restrictive fiscal year, we are concerned about the negative consequences that it would have on working families. It is a misconception that only high-earners can afford to own a second home, but we suspect that many middle-class residents also own second homes, which may be utilized to house a relative or be rented out for additional income. We find it important that the legislature take a broad approach at its tax policy to ensure that there is a balance between not over-taxing local residents and ensuring that there is enough revenue to fund government functions. Particularly at a time when it is fair to anticipate that the legislature may pause or amend the tax cuts that was passed in 2024.

Thank you for the opportunity to provide testimony in opposition to S.B. 2451.

Respectfully submitted,

Randy Perreira
Executive Director

February 5, 2026

The Honorable Stanley Chang, Chair

Senate Committee on Housing
State Capitol, Conference Room 225 & Videoconference

RE: Senate Bill 2451, Relating to Taxation

HEARING: Thursday, February 5, 2026, at 1:01 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 2451, 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.

Mahalo for the opportunity to provide testimony on this measure.

SB-2451

Submitted on: 2/2/2026 2:22:13 PM

Testimony for HOU on 2/5/2026 1:01:00 PM

Submitted By	Organization	Testifier Position	Testify
Kaleo K	Individual	Support	Written Testimony Only

Comments:

Aloha Chair and Members of the Committee,

I **strongly support** SB2451. We live on an island where land is finite, and eventually, we will run out of room to build. Giving a tax break is an incentive for investment home purchases, taking away from an already limited supply. SB2451 is a step toward fairer taxation and protecting housing for residents who need it most.

When people are living on the streets of our islands and families are struggling just to rent or purchase their first home, it does not seem right to continue subsidizing second homes. Removing this deduction will help reduce incentives for investment properties and support policies that prioritize housing access and affordability for local residents. I respectfully urge the Committee to pass SB2451.

Mahalo for your consideration.

SB-2451

Submitted on: 2/3/2026 6:50:40 AM

Testimony for HOU on 2/5/2026 1:01:00 PM

Submitted By	Organization	Testifier Position	Testify
Johnnie-Mae L. Perry	Individual	Support	Written Testimony Only

Comments:

I, Johnnie-Mae L. Perry Support

2451 SB RELATING TO TAXATION.	HOU	CR 225 & Videoconference	Feb 5, 2026 1:01 PM
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SB-2451

Submitted on: 2/3/2026 8:42:44 AM

Testimony for HOU on 2/5/2026 1:01:00 PM

Submitted By	Organization	Testifier Position	Testify
Victor K. Ramos	Individual	Oppose	Written Testimony Only

Comments:

OPPOSE this bill. These mortgages are for homes that are PRIVATE PROPERTY. Remember the sign? "KAPU, KEEP OUT!" This mean you Comrades Rhoads, Chang & San Buenaventura!

**The Senate
The Thirty-Third Legislature, 2026
Committee on Housing
Thursday, February 5, 2026
1:01 p.m.**

To: Senator Stanley Chang, Chair
Re: SB 2451, Relating to Taxation

Aloha Chair Stanley Chang, Vice-Chair Troy Hashimoto, and Members of the Committee,

I am a retired banker with residential financing experience in Hawaii and am **opposed** to this measure.

During my banking career, many Hawaii residents used “second home” mortgages to obtain residences for their adult children who could not independently qualify for residential mortgages due to insufficient income, irregular employment history, and/or financial insolvency.

Some Hawaii residents utilized “second home” mortgages to assist their elderly parents who could not qualify for residential financing due to insufficient retirement income and/or high debt, including medical debt, for the purchase of homes that were more accommodative to caregiving and less costly than residences in assisted living facilities.

An advantage of a “second home” mortgage was that its rates and terms were often identical to the rates and terms for primary residences.

Another advantage was that the interest on those “second home” mortgages was deductible, making these home more affordable.

A disadvantage of a “second home” mortgage was that borrowers were prohibited from renting the subject property for more than two weeks per year. Because of this restriction, some borrowers opted for “investor” financing which allowed renting of the subject property.

Additionally, as investors, they were able to deduct the interest paid on their investment financing as a business expense to offset their rental income.

Thus, based on my experience, eliminating the interest deduction of “second home” mortgages would hurt the more financially vulnerable of Hawaii’s residents—those trying to get a start in the difficult and challenging Hawaii real estate market, and those who need caregiving but cannot afford expensive adult care facilities.

Mahalo for the opportunity to testify.

Lila Mower