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**STATE OF HAWAII**  
**DEPARTMENT OF TAXATION**  
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To: The Honorable Sylvia Luke, Chair  
and Members of the House Committee on Finance

Date: Friday, February 23, 2018  
Time: 3:30 P.M.  
Place: Conference Room 308, State Capitol

From: Linda Chu Takayama, Director  
Department of Taxation

Re: H.B. 2703, H.D. 1, Relating to Housing Affordability

The Department of Taxation (Department) offers the following comments on H.B. 2703, H.D. 1, for the Committee's consideration.

H.B. 2703, H.D. 1, makes various amendments to income tax and conveyance tax. Specifically, the bill does the following:

- Amends the income tax credit for low-income household renters (renter's credit) under Hawaii Revised Statutes (HRS) section 235-55.7, by replacing the renter's credit amount of \$50 per exemption with an unspecified amount;
- Amends the earned income tax credit (EITC) under HRS section 235-55.75, by replacing the State EITC amount of 20% of Federal EITC with an unspecified amount, and from a nonrefundable credit to refundable credit; and
- Amends the distribution of the conveyance tax under HRS section 247-7, by allocating an unspecified percentage or an unspecified amount, whichever is less, to the rental assistance revolving fund established by HRS section 201H-123.

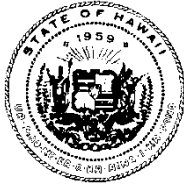
H.B. 2703, H.D. 1, has a defective effective date of January 1, 2050, with amendments to the renter's credit and EITC otherwise applying to taxable years beginning after December 31, 2017.

The Department notes that refundable tax credits often lead to improper claims and create a potential for fraud. Nonrefundable tax credits limit the incentive for fraud because they only benefit taxpayers to the extent of their tax liability. A nonrefundable state EITC would not generate the number of improper claims as the federal EITC (ranging from 23% to 27%).

In addition, beginning on January 1, 2017, the federal Protecting Americans from Tax Hikes Act of 2015 requires that the Internal Revenue Service hold any refunds where EITC is claimed until at least February 15. This new law is intended to provide the IRS more time to verify claims thereby reducing the number of improper claims. The Committee may wish to consider monitoring the effectiveness of this new policy before amending the state EITC from a nonrefundable to refundable credit.

Finally, the Department is able to administer changes to the renter's credit and EITC for taxable years beginning after December 31, 2017, as this measure proposes modification of existing credits.

Thank you for the opportunity to provide comments.



**STATE OF HAWAII**

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM  
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION  
677 QUEEN STREET, SUITE 300  
Honolulu, Hawaii 96813  
FAX: (808) 587-0600

IN REPLY REFER TO:

Statement of  
**Craig K. Hirai**  
Hawaii Housing Finance and Development Corporation  
Before the

**HOUSE COMMITTEE ON FINANCE**

February 23, 2018 at 3:30 p.m.  
State Capitol, Room 308

In consideration of  
**H.B. 2703, H.D. 1**  
**RELATING TO HOUSING AFFORDABILITY.**

The HHFDC *supports the intent* of Part II of H.B. 2703, H.D. 1 provided that its passage does not replace or adversely impact priorities indicated in our Executive Supplemental budget request. We take no position on Parts III and IV of the bill.

Part II of this bill allocates an unspecified percentage of conveyance taxes, up to an unspecified cap, for the Rental Assistance Revolving Fund (RARF), and mandates that said amount only be used for rent subsidies for families at or below 30 percent of the area median income.

The RARF funds HHFDC's Rental Assistance Program (RAP), which provides qualified owners with monthly rental assistance subsidies to assist eligible tenants who live in rental housing developments to make their rental payments. RAP provides rental subsidies for eligible tenants at or below 80 percent of the area median income. The RARF does not have sufficient funding to enter into new RAP contracts.

Rental subsidies are needed to assist families at this extremely low income level in permanent affordable housing. HHFDC is willing to provide RAP subsidies for this income level, provided that this funding source is made available.

Thank you for the opportunity to testify.

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: CONVEYANCE, INCOME, Earmark Conveyance Tax to Feed Rental Assistance Revolving Fund, Make EITC Refundable, Increase Low-Income Household Renters Credit

BILL NUMBER: HB 2703, HD-1

INTRODUCED BY: House Committee on Housing

EXECUTIVE SUMMARY: (1) Allocates a portion of the conveyance tax revenues to the rental assistance revolving fund to be used to subsidize rents for persons who meet certain income requirements; (2) Increases the income tax credit for low-income household renters to an unspecified amount; and (3) Makes the state earned income tax credit refundable and changes the amount of the credit to an unspecified percentage of the federal earned income tax credit.

SYNOPSIS: Amends sections 201H-123 and 247-7, HRS, to allocate the lesser of \_\_\_% or \$\_\_\_ from the conveyance tax to the rental assistance revolving fund.

Amends section 235-55.7, HRS, to change the amount of the low-income household renters' credit from \$50 to \$\_\_\_.

Amends section 235-55.75, HRS, to change the earned income tax credit from nonrefundable to refundable.

EFFECTIVE DATE: This Act shall take effect on January 1, 2050; provided that: (1) Part II shall take effect on January 1, 2050; and (2) Parts III and IV shall apply to taxable years beginning after December 31, 2017.

STAFF COMMENTS:

## **Conveyance Tax**

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. As a result 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. Until

2005, 50% of the receipts went into the general fund and the other half was split with the affordable rental housing program and the natural area reserve program. Beginning in 2005, another 10% was taken for the land conservation fund. In 2009, legislators reduced the amount of conveyance tax revenues earmarked to the rental housing trust fund from 30% to 25% until June 30, 2012 in an effort to generate additional revenues for the state general fund. Act 164, SLH 2014, increased the earmark to 50% as of July 1, 2014, and Act 84, SLH 2015, imposed the \$38 million cap on the earmark.

This bill adds an additional earmark on the conveyance tax to feed the rental assistance revolving fund.

As with any earmarking of revenues, the legislature will be preapproving each of the programs fed by the fund into which the tax monies are diverted, expenses from the funds largely avoid legislative scrutiny, and the effectiveness of the programs funded becomes harder to ascertain. It is also difficult to determine whether the fund has too little or too much revenue.

If the legislature deems the programs and purposes funded by this special fund to be a high priority, then it should maintain the accountability for these funds by appropriating the funds as it does with other programs. Earmarking revenues merely absolves elected officials from setting priorities. If the money were appropriated, lawmakers could then evaluate the real or actual needs of each program.

### **Income Tax Credit for Low-Income Household Renters**

The 1970 legislature adopted a system of tax credits for household renters which was intended to partially offset the higher tax burden on renters resulting from the lack of tax relief like the home exemption for homeowners and the 4% general excise tax levied on rental income. The current renter credit was established by the 1977 legislature at \$20 per exemption for those taxpayers with adjusted gross incomes of less than \$20,000 who paid more than \$1,000 in rent during the tax year. Act 230, SLH 1981, increased the credit amount to \$50. Act 239, SLH 1989, increased the adjusted gross income (AGI) limit to \$30,000 to claim the credit. The proposed measure would increase the amount of the credit from \$50 to \$150. It does not increase the rent qualification amount – the taxpayer still will need to pay \$1,000 in rent during a taxable year to qualify for the credit.

There are some issues to consider with refundable credits targeted at low-income and homeless people generally.

First, a tax return is one of the most complicated documents for government agencies to process. The administrative costs associated with each one can quickly make heads spin. Furthermore, as the U.S. Treasury has experienced with the Earned Income Tax Credit, the combination of complexity and a refundable credit result in a certain percentage of improper payouts, some due to mistake or misunderstanding, and some due to bad actors.

Second, the low-income household renters' credit does nothing for most of the homeless; the credit requires payment of more than \$1000 in rent. And even for those in the target population who do qualify for this credit, the relief that the credit provides comes in a tax refund which is

paid, at the earliest, in the early part of the year after the tax return filer needs the relief. A person who qualifies for the credit in 2017, for example, won't get a check until early 2018.

Third, as a policy matter, lawmakers might prefer that the recipient of the refund not use the money obtained on such things as cigarettes, alcohol, or illegal drugs. But the tax system contains no way of restricting the uses of a refund check; other departments do have systems in place to give some assurance that the payment will go toward legitimate living expenses such as groceries (EBT, for example).

The better solution is to get such people out of the tax system entirely. They receive peace of mind because they don't have to worry about tax returns, and the department doesn't have to worry about processing those returns. If additional relief to such people is considered desirable, it can be delivered through the agencies that are better equipped to do so.

### **Earned Income Tax Credit**

In Act 107, SLH 2017, the earned income tax credit (EITC), was adopted. Its supporters maintained it's the best solution to lift families out of poverty since sliced bread. At the Department of Taxation's urging, however, the EITC was made nonrefundable. Advocates clearly didn't like that, and are pressing to make the credit refundable.

Well, what's the difference? Let's start with a nonrefundable credit, which is current law. Suppose you either have lots of credits or not very much income, so you have more credits than tax liability. If you have made tax payments throughout the year, through wage withholding perhaps, you still can get all your payments back. But once the tax liability hits zero, there's no more. The state does not cut you a check, but you get a credit carryover which can be used against next year's tax liability.

In contrast, a refundable credit is just as good as cash. Not only can this type of credit reduce the amount of tax owed, but if the tax liability is less than the credit the State will cut the taxpayer a check for the difference.

Why is the State concerned about issuing refundable credits? There are several reasons.

First, issuing a refund is administratively expensive. In most businesses, the internal process necessary to send money to someone goes through several checks and balances to make sure that no mistakes are made. In our state government, we need to do those processes twice. At the Department of Taxation, staff can ask for a refund to be issued but no one can issue a check. Instead, a document called a "refund voucher" is sent to a different department altogether, the Department of Accounting and General Services (DAGS). Once DAGS gets the refund voucher, it goes through its own processes, checking to see if the recipient doesn't owe another agency for example, and then issues the check.

Second, a refund can become a target for bad actors. We earlier pointed to reports from the U.S. Treasury Inspector General for Tax Administration estimating that more than 20% of all federal EITC payouts were improper. Other studies estimated that about half of these so-called improper payments were paid out because someone made a mistake. Perhaps the taxpayer was

confused by the tax form, which is admittedly complex. The other half were paid out because of bad actors. Maybe a taxpayer claimed credits for kids they don't have. Maybe an unethical tax preparation service filled in data claiming credits for people who exist but aren't part of the taxpayer's family. Once the cash goes out, however, it's tough to get back. In Hawaii, our credit is 20% of the federal credit so a smaller check would go out, and because the number is smaller the Department of Taxation might not be motivated to chase down the improper payments given the number and severity of other items on their plate.

Indeed, the Department recently estimated that changing the Hawaii EITC to a refundable one would cost the State \$32 million more than a nonrefundable credit. It's not clear how they came up with that number. But that amount of money definitely could cool a few sweltering classrooms, or perhaps fix a few plumbing facilities at the airport. In this situation, what are our priorities? Where is the need greatest?

Digested 2/21/2018



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**TESTIMONY FOR HOUSE BILL 2703, HOUSE DRAFT 1, RELATING TO HOUSING AFFORDABILITY**

**House Committee on Finance  
Hon. Sylvia Luke, Chair  
Hon. Ty J.K. Cullen, Vice Chair**

**Friday, February 23, 2018, 3:30 PM  
State Capitol, Conference Room 308**

Honorable Chair Luke and committee members:

I am Kris Coffield, representing IMUAlliance, a nonpartisan political advocacy organization that currently boasts over 400 members. On behalf of our members, we offer this testimony in support of House Bill 2703, HD 1, relating to housing affordability.

Hawai'i residents face the highest housing costs in the nation, at more than twice the national average. Researchers who authored the National Low Income Housing Coalition's *Out of Reach 2017* report found that a full-time worker would need to earn \$35.20/hour to afford a two-bedroom apartment at fair market value in our state, with Honolulu experiencing a 67 percent increase in fair market rent between 2005 and 2015. Average rent for a two-bedroom unit surpassed \$2,000 in recent years, with minimum wage workers needing to log 116 hours per week to afford a modest one-bedroom apartment at fair market value and 139 hours per week to afford a two-bedroom—a number that is equivalent to working 20 hours a day with no days off year-round. In the past three years alone, Honolulu rent has increased by more than 25 percent. While 43 percent of Hawai'i residents are renters (a number that does not include individuals and families renting outside of the regulated rental market), they earn an average wage of \$15.64/hour, scarcely enough to meet their basic needs. One out of every four households in Hawai'i report that they are “doubling up” or are three paychecks or less away from being homeless, per the Hawai'i Appleseed Center for Law and Economic Justice. Additionally, 54 percent of households are cost-burdened, meaning that they pay more than 30 percent of their income for housing costs, a number that rises to 83 percent of extremely low-income households. Homelessness is directly tied to our state's exorbitant cost of living and penchant for catering to people who use the islands as their own private Monopoly board. We beseech you to seek innovative ways of making Hawai'i more affordable for our economically disadvantaged neighbors.



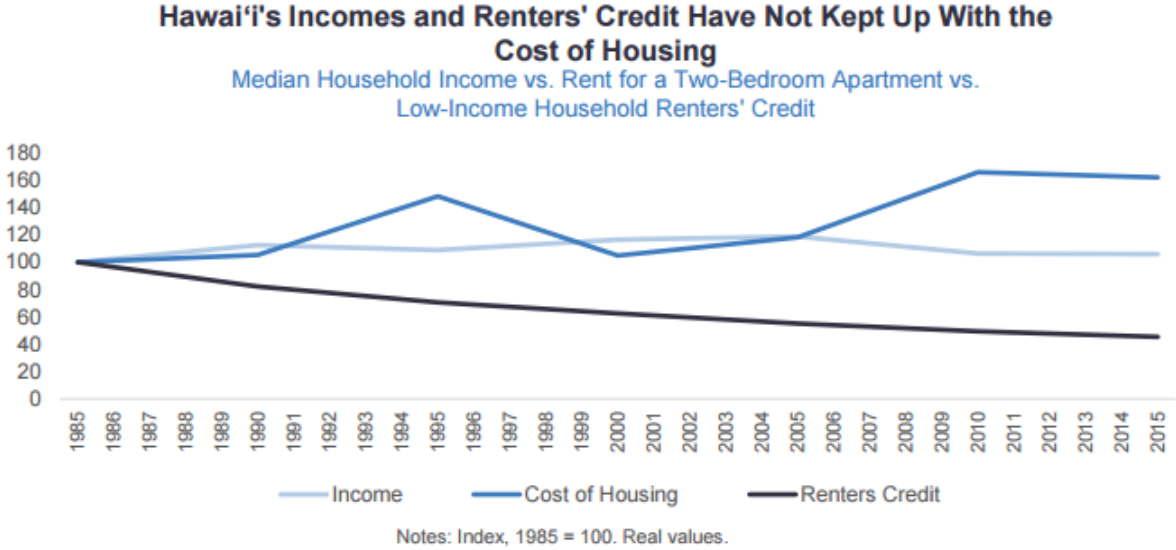
Our state's cost of housing has skyrocketed over the last decade, leaving many families searching for affordable alternatives, in shelters, or on the streets. For context, the median price of condominiums on O'ahu increased 6 percent in the summer of 2017 to a record \$425,000, while the median price for single-family homes increased by 3 percent to \$795,000, according to the Honolulu Board of Realtors, a number that they expect to increase by at least another 5 percent in 2018. Average fair market rent for two-bedroom apartments in *outlying* communities in the City and County of Honolulu now exceeds \$2,000, with the cost of a four-bedroom home in urban Honolulu now exceeding \$1.1 million. At least 46 percent of residences in Hawai'i are owner unoccupied, according to the National Low-Income Housing Coalition, meaning that nearly 50 percent—and by some estimates over half—of Hawai'i's homes are likely investment properties.

The time for deliberation is over. It's time to act. Experts at DBEDT now estimate that Hawai'i needs 66,000 new housing units by the year 2025 to keep up with demand, more than 80 percent of which is needed to meet the demand of people who qualify for affordable housing. Yet, for every 100 extremely low-income renters on O'ahu, there exist only 40 affordable rentals, according to the Urban Institute, of which only 11 are “naturally affordable,” meaning they are affordable without federal subsidies. Though our state is committed to a goal of building 22,500 affordable rental housing units in the next 10 years, figures from the Hawai'i Housing Finance and Development Corporation show that in 2015 and 2016, we added only approximately 1,000 affordable rental units to our state's inventory, with further plans finalized for a mere 3,240 more affordable rentals by 2022. Analysts believe that boosting the overall housing supply will lower home prices—and, in turn, rent—for all residents, an ancillary benefit that cannot be overstated in our undersaturated, luxury-driven, “investor first” housing market.

Conveyance taxes are levied on transfers of real property. Currently, HRS §247-7 caps the amount of conveyance tax collections paid into the rental housing revolving fund at the lesser of 50 percent or \$38 million. Per the Hawai'i Housing Finance and Development Corporation, the revolving fund exists “for the development, pre-development, construction, acquisition, preservation, and substantial rehabilitation of rental housing units.” To increase available funding for affordable housing, we support allowing a portion of the conveyance tax revenues paid to the rental assistance revolving fund to be used to subsidize rents for low-income individuals and families whose income does not exceed 30 percent of area median income. We also support making the earned income tax credit refundable to provide low- to moderate-income working families with immediate access to additional funds that may be used to help pay their rent.

Finally, to help ease Hawai'i's highest-in-the-nation cost of living, lawmakers must pass measures enhancing tax fairness and economic justice. Our state's low-income renters' credit is in dire need of adjustment. In 1981, the LIHRC was set at \$50. Later, in 1989, the income eligibility cutoff was established at \$30,000, just above the median household income of the time. Yet, neither of these amounts have changed since the 1980s, leaving the amount of the credit lagging far behind inflation. We must update the renters' credit to recover ground lost to inflation by

increasing the maximum value of the credit to at least \$150, income eligibility limits to at least \$60,000 (though an unlimited eligibility is preferable, so that all renters may claim the credit), and requiring that the credit be adjusted in all subsequent years to account for increases in the consumer price index, which will prevent the future value of the credit from lagging behind our high cost of living, as it does now.



We need housing now. Mahalo for the opportunity to testify in support of this bill.

Sincerely,  
Kris Coffield  
*Executive Director*  
IMUAlliance

February 23, 2018

**The Honorable Sylvia Luke, Chair**

House Committee on Finance  
State Capitol, Room 308  
Honolulu, Hawaii 96813

**RE: H.B. 2703, HD1, Relating to Housing Affordability**

**HEARING: Friday, February 23, 2018, at 3:30 p.m.**

Aloha Chair Luke, Vice Chair Cullen and Members of the Committee,

I am Ken Hiraki, Director of Government Affairs, here to testify on behalf of the Hawai'i Association of REALTORS® (“HAR”), the voice of real estate in Hawai'i, and its almost 9,500 members. HAR **opposes** House Bill 2703, HD1, which allocates a portion of the conveyance tax revenues to the Rental Assistance Revolving Fund to be used to subsidize rents for persons who meet certain income requirements. This measure also increases the income tax credit for low-income housing renters to an unspecified amount. Also, it makes the state earned income tax credit refundable and changes the amount of the credit to an unspecified percentage of the federal earned income tax credit.

The Conveyance Tax applies to the conveyance of multi-family rentals, land for residential subdivisions, mixed-income and multi-use properties, commercial properties, resort properties, and agricultural lands, as well as condominium and single-family homes. It also applies when one conveys property between family members. It also applies whether or not a property is sold at a gain or a loss

The tax applies to the entire purchase price, and does not take into account the amount of indebtedness that may be on the property being sold, or whether the seller may be selling at less than what the seller originally acquired the property for. Thus, in certain circumstances the seller may not have the cash to be able to pay the Conveyance Tax, or the amount of tax may be so high relative to the net proceeds that the seller is receiving as to become confiscatory.

Furthermore, the problem linking special funding to the Conveyance tax is that when the real estate market is down, there are not enough funds to pay for the programs and special funds it covers. Then, the Conveyance Tax would need to be increased to cover the program. However, when the market is up, there are excess funds over and above the program's needs. This becomes a cyclical issue, and unreliable in forecasting these program's needs.

While HAR supports efforts to address our State's affordable housing needs, we oppose utilizing the Conveyance Tax to earmark monies to a special fund to do so.

Mahalo for the opportunity to testify in opposition to this measure.



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COMMITTEE ON FINANCE  
FRIDAY, FEBRUARY 23, 3:30 PM, Room 308  
HB2703 HD2, RELATING TO HOUSING AFFORDABILITY

**TESTIMONY**

Beppie Shapiro, Legislative Committee, League of Women Voters of Hawaii

Chair LUKE, Vice-Chair CULLEN, and Committee Members:

**The League of Women Voters of Hawaii strongly supports each of the following three parts of HB2703 HD1:**

- 1. Allocation of a portion of the conveyance tax to subsidize rents for those earning less than 30% of the area median income (currently about \$25,100 for a 2 person household or \$31,380 for a 4 person household).**
- 2. Increasing the income tax credit for renters whose AGI is less than \$30,000 who have paid more than \$1000 rent over the year.**
- 3. Making the credit refundable.**

**We make no comment on changing the calculation of the Hawaii credit in terms of the federal Earned Income Tax Credit.**

Far too many renters pay more than they can afford for housing. This bill provides some relief for the neediest of them.

When last updated in 1981, the low income renters credit was \$50; HB2703 HD1 provides a way to update this amount after 40 years of inflation.

Importantly, HB2703 HD1 makes the credit refundable, so the poorest families with little or no owed tax will still benefit from these modest credits.

The additional disposable income provided will surely be spent immediately in Hawaii, adding to excise tax collections and helping Hawaii businesses.

Thank you for the opportunity to present testimony.



# HAWAII APPLESEED

## CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawai‘i Appleseed Center for Law and Economic Justice  
Supporting HB 2703 HD1 -- Relating to Housing Affordability  
House Committee on Finance  
Scheduled for hearing on Friday, February 23, 2018, 3:30 PM, in conference room 308

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Dear Chair Luke, Vice Chair Cullen, and members of the Committee:

Thank you for the opportunity to testify in SUPPORT of **HB 2703 HD1**, which would allocate a portion of conveyance tax revenues to the rental assistance revolving fund, to be used to subsidize rents for persons who meet certain income requirements; increase the income tax credit for low-income household renters, and make the state earned income tax credit refundable.

As you well know, Hawai‘i has the highest rate of homelessness in the nation. A major cause of this crisis is our skyrocketing cost of housing, which is also the highest in the nation. To afford a 2-bedroom market-rate apartment, a renter in Hawai‘i would need to make \$35.20 per hour, or over \$73,000 per year. As a result, the gap between this “housing wage” and the average renter’s wage is the widest in the nation, at \$19.56 per hour.<sup>i</sup>

More than half of our state’s renters are housing cost-burdened, spending more than 30 percent of their income on housing costs. An astounding 75 percent of Hawai‘i residents living at or below the poverty line (which is about 30 percent of area median income) spend more than half of their incomes on housing.<sup>ii</sup>

HB 2703 HD1 would help economically struggling households in our state make their rent payments every month, which in turn would help prevent evictions and bouts of homelessness.

The first part of the bill directs an unspecified amount of conveyance tax revenues to subsidize rents for individuals or families whose income does not exceed 30 percent of area median income. As noted above, these are the households that are struggling most desperately to pay their rent and therefore are in the most need for such subsidies.

The second part of the bill increases the Low-Income Household Renters’ Credit by an unspecified amount. The renters’ credit was created 40 years ago to help make up for the high rents and tax rates that burden our low- and moderate-income neighbors. However, it has not been updated in nearly three decades to even account for inflation.

In order to fully catch up with inflation, we recommend that the maximum value of the renters’ credit be raised to \$150 per exemption (with phase-out levels set at \$100 and \$50), and the eligibility threshold to just above the median<sup>iii</sup>, which is approximately \$75,000 in annual

income for joint filers. We also suggest tailoring the credit amounts to recognize different tax filing statuses, as well as automatically adjusting it with inflation, in order to avoid future erosion of the credit's value and reach.

The third part of the bill makes our state's EITC refundable. Mahalo to this Committee and the Legislature for creating the Hawai'i state EITC last session. However, it is not as effective as it could be because it is not refundable, which means that tax filers can't get back more through the credit than what they owe in state income tax.

Take the example of a single parent with two children, working full-time at the minimum wage. She would make \$21,000 per year and owe approximately \$432 in state income tax. Her state EITC would total approximately \$883, but because it is not refundable, she would only be able claim \$432, the amount that she owes in income tax.

However, if the EITC were refundable – as it is at the federal level and in 24 of the 29 other states with EITCs – she'd be able to claim the full \$883, which means she'd get a tax refund of \$451. She could use that to help pay the rent. We recommend that the amount of the credit not be lowered below its current value of 20 percent of the federal EITC.

Finally, we'd like to identify a potential source of revenue for the provisions of this bill. HB 2702 would withhold taxes from out-of-state residents who receive income generated by Hawai'i real estate investment trusts (REITs). There seems to be a natural connection between funding for housing affordability and revenues generated from the real estate sector.

We appreciate your consideration of this testimony.

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<sup>i</sup> *Out of Reach 2017*, National Low Income Housing Coalition, [http://nlihc.org/sites/default/files/oor/OOR\\_2017.pdf](http://nlihc.org/sites/default/files/oor/OOR_2017.pdf)

<sup>ii</sup> *2017 State Housing Profile: Hawaii*, National Low Income Housing Coalition, [http://nlihc.org/sites/default/files/SHP\\_HI.pdf](http://nlihc.org/sites/default/files/SHP_HI.pdf)

<sup>iii</sup> Hawaii Rankings and Comparisons, Department of Business, Economic Development & Tourism, <http://dbedt.hawaii.gov/economic/ranks/>



## CATHOLIC CHARITIES HAWAII

### TESTIMONY IN SUPPORT OF HB 2703, HD1: Relating to Housing Affordability

**TO:** Representative Sylvia Luke, Chair, Representative Ty J.K. Cullen, Vice Chair, and Members, Committee on Finance  
**FROM:** Terrence L. Walsh, Jr., President and Chief Executive Officer  
**Hearing:** **Friday, 2/23/18; 3:30 PM; CR 308**

Chair Luke, Vice Chair Cullen, and Members, Committee on Finance:

Thank you for the opportunity to provide written testimony **in strong support** of **HB 2703 HD1**, which 1) allocates a portion of the conveyance tax to the Rental Assistance Revolving Fund (to assist families at 30% AMI or below), 2) increases the low-income tax credit, and 3) makes the EITC refundable, etc. I am Terry Walsh, with Catholic Charities Hawai'i. We are also a member of Partners in Care. We feel this is a very important bill.

Catholic Charities Hawai'i (CCH) is a tax exempt, non-profit agency that has been providing social services in Hawai'i for over 60 years. Our mission is to provide services and advocacy for the most vulnerable in Hawai'i. Our top priority is to end homelessness. To achieve this goal, we must put significant resources into housing for those with incomes below 30% AMI.

We support allocating a portion of the conveyance tax to the Rental Assistance Revolving Fund to enable projects to offer units that include a subsidy for those at 30% AMI or below. It is extremely difficult to build new units for this population and keep these projects sustainable. This solution would enable the State to significantly increase the creation of units for this hard to house population. Currently, projects funded through another major State resource, the Rental Housing Revolving Fund only provide 5% of units at rents affordable to this extremely low income group. With rents skyrocketing, and Hawai'i being #1 among US states in per capita homelessness, our situation is dire. This bill would provide a solution to create rental units that struggling families, our kupuna, our young graduates, etc. who make under 30% AMI can afford.

To end homelessness, we also support income stability for low-income people to stop the flow into homelessness. Increasing the income tax credit for low-income households, and making it refundable would assist our citizens who live on the edge and any crisis could tip them into homelessness. Making the Earned Income Tax Credit refundable and other changes would also help those living on a survival budget to be more economically stable. These tax credits also benefit our economy since the refunds are usually spent on basic living expenses.

We thank the Legislature for focusing on the needs of low-income people and those living on a survival budget, which is almost HALF of all isle residents (per the recent Aloha United Way "ALICE" report). This bill would be a strong step in the right direction.

Please contact our Legislative Liaison, Betty Lou Larson, at 373-0356 or [bettylou.larson@catholiccharitieshawaii.org](mailto:bettylou.larson@catholiccharitieshawaii.org), if you have any questions.



**HB-2703-HD-1**

Submitted on: 2/22/2018 2:46:24 PM

Testimony for FIN on 2/23/2018 3:30:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Melodie Aduja	OCC Legislative Priorities Committee, Democratic Party of Hawai'i	Support	No

Comments:





**LATE**

**HB2703 HD1**  
**RELATING TO HOUSING AFFORDABILITY**  
House Committee on Finance

February 23, 2018

3:30 p.m.

Room 308

The Office of Hawaiian Affairs (OHA) **SUPPORTS** HB2703 HD1, which will provide substantial and much-needed housing relief to Native Hawaiian renters as well as other residents of Hawai‘i, and better assist low-income wage earners in achieving and maintaining housing security.

**Native Hawaiian renters and many of Hawai‘i’s residents today are clearly struggling to afford their monthly housing costs.** Native Hawaiians, whose homeownership rate is significantly lower than the state average, disproportionately rely on the rental housing market.<sup>1</sup> Native Hawaiian households are also much more likely to be “doubled up,” with multi-generational or unrelated individuals living together in single households.<sup>2</sup> In addition, Native Hawaiian households are more than three times more likely have a “hidden homeless” family member than all state households.<sup>3</sup> Recent research has further shown that state and Native Hawaiian housing rental housing demand is almost entirely for units that are affordable, rather than for market-rate or other ‘gap’-rate units.<sup>4</sup> As such, support for affordable housing relief is more critical to OHA’s beneficiaries and many other Hawai‘i residents now than ever before.

**HB2703 HD1’s proposed low income household renters tax credit (LIHR) increase reflects a pragmatic approach to alleviating the tax burden on those low-income individuals and families facing housing insecurity, and will have a particular impact on Native Hawaiians.** Originally created in 1977 to mitigate the high cost of housing in Hawai‘i, the LIHR credit currently provides a \$50 tax credit per “qualified exemption,” for households with an adjusted gross income of less than \$30,000, that pay more than \$1,000 a year in rent. Kūpuna over the age of 65 are able to receive double the credit.

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<sup>1</sup> For non-DHHL properties, the Native Hawaiian homeownership rate is 38.9%, 18.3 percentage points below the statewide rate of 57.2%. See U.S. Census Bureau. (2017). American Community Survey (ACS) 1-year Estimates: 2016. See also HHL: Homestead Services Division. (01/24/17) Commission submittal

<sup>2</sup> 24.8% of Native Hawaiian households, compared to 9.6% of state households include more than two generations or unrelated individuals. See SMS, HAWAII HOUSING PLANNING STUDY, at 34 (2016), available at [https://dbedt.hawaii.gov/hhfdc/files/2017/03/State\\_HHPS2016\\_Report\\_031317\\_final.pdf](https://dbedt.hawaii.gov/hhfdc/files/2017/03/State_HHPS2016_Report_031317_final.pdf).

<sup>3</sup> 14.1% of Native Hawaiian households, compared to 4.2% of state households have a hidden homeless family member. *Id.*

<sup>4</sup> See SMS, HAWAII HOUSING PLANNING STUDY, at 34 (2016), available at [https://dbedt.hawaii.gov/hhfdc/files/2017/03/State\\_HHPS2016\\_Report\\_031317\\_final.pdf](https://dbedt.hawaii.gov/hhfdc/files/2017/03/State_HHPS2016_Report_031317_final.pdf).

Notably, while the LIHR is intended to provide meaningful relief for those who may need it the most, the value of the LIHR credit has not been updated since 1981. **This measure proposes an adjustment to the LIHR credit for Hawai'i's lowest-income households, to better reflect the cost of housing today, and thereby provide more meaningful relief to for those struggling to remain financially self-sufficient and housing secure.**

**Furthermore, HB2703 HD1's proposed "refundable" earned income tax credit ("EITC") would further relieve the tax burden on our neediest community members, including Native Hawaiians.** Building upon Act 107 (2017), HB2703 HD1 proposes to convert the state EITC into a "refundable" EITC, with an amount to be based on an unspecified percentage of the federal EITC. Because an EITC is tied to an individual taxpayer's income and family size, it is a highly targeted approach that provides tax relief in proportion to the taxpayer's needs. Such a credit addresses economic disparities in a systemic way, and provides our low-income working families and parents with additional funds to purchase basic necessities, contribute to Hawai'i's economy, and achieve economic self-sufficiency. By making the current state EITC a "refundable" credit, this measure would allow our lowest-income families to more fully realize these benefits, and encourage the asset building necessary for their increased financial security and self-sufficiency. OHA notes that any reductions in tax revenue from the EITC conversion into a refundable credit will likely be offset by increased consumer spending and economic activity, as well as the long-term increase in credit recipients' financial capacity.

Therefore, OHA urges the Committee to **PASS** HB2703 HD1. Mahalo for the opportunity to testify on this matter.