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HOUSE COMMITTEE ON FINANCE

**TESTIMONY OF THE DEPARTMENT OF TAXATION
REGARDING SB 1241, SD 1
RELATING TO CONVEYANCE TAX**

TESTIFIER: FREDERICK D. PABLO, DIRECTOR OF TAXATION (OR
DESIGNEE)
COMMITTEE: FIN
DATE: APRIL 1, 2011
TIME: 5:00PM
POSITION: DEFER TO HHFDC

This measure repeals the conveyance tax exemption for low-income housing projects certified by the Hawaii housing finance and development corporation.

The Department of Taxation defers to the Hawaii Housing Finance and Development Corporation on the merits of this legislation.

The estimated revenue impact is minimal.



STATE OF HAWAII

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

Statement of
Karen Seddon
Hawaii Housing Finance and Development Corporation
Before the

HOUSE COMMITTEE ON FINANCE

April 1, 2011 at 3:00 p.m.
Room 308, State Capitol

In consideration of
S.B. 1241, S.D. 1
RELATING TO CONVEYANCE TAX.

The HHFDC ***strongly supports*** S.B. 1241, S.D. 1, which is part of the Administration's legislative package. S.B. 1241, S.D. 1 repeals the exemption from conveyance tax for the sale or transfer of land for low-income housing projects that have been certified by the HHFDC. The bill aligns with the New Day in Hawaii Recovery and Reinvestment Plan by ensuring that government programs are efficient and cost-effective, and that State revenues are preserved for important State priorities.

The conveyance tax is paid by the property seller, not the purchaser -- the entity that actually will be developing the low-income housing project. There is no requirement for the seller to pass on any of the savings realized from the exemption to the low-income housing project being developed or preserved. As 25 percent of conveyance tax revenues are deposited into the Rental Housing Trust Fund, we believe that this exemption should be repealed.

Thank you for the opportunity to testify.

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SUBJECT: CONVEYANCE, Repeal exemption for low-income housing projects

BILL NUMBER: SB 1241, SD-1

INTRODUCED BY: Senate Committee on Ways and Means

BRIEF SUMMARY: Amends HRS section 247-3 to repeal the exemption from the conveyance tax any conveyance of real property to any nonprofit organization that has been certified by the Hawaii housing finance and development corporation (HHFDC) for low-income housing development.

EFFECTIVE DATE: July 1, 2050

STAFF COMMENTS: This is an administration measure submitted by the department of business, economic development and tourism BED-02 (11). The legislature by Act 196, SLH 2005, adopted an exemption from the conveyance tax for conveyances of real property to a nonprofit organization for the development of low-income housing. While the HHFDC has determined that this exemption has not help to increase the inventory of low-income housing, it is recommending that this exemption be repealed. Unfortunately, this measure reflects the lack of understanding of what goes into the development of affordable housing and how every cost has to be recovered through either the sales price or the amount of rent charged. With the recent substantial increases in the conveyance tax and in particular on non owner-occupied residential housing, the conveyance tax will impose a substantial burden on the nonprofit trying to provide affordable housing.

Inasmuch as HHFDC relies on the proceeds of the conveyance tax to fund the affordable rental housing trust fund, those developers of affordable housing who do not get those funds are getting the short end of the stick. To a large degree, this measure is self-serving and lacks an understanding of the preciseness of the financing of such housing projects. Adoption of this measure would run counter to the efforts to provide "affordable" housing.

Digested 3/22/11



CATHOLIC CHARITIES HAWAII

TESTIMONY IN SUPPORT OF SB 1241, SD1: Relating to Conveyance Tax

TO: Representative Marcus Oshiro, Chair; Representative Marilyn Lee, Vice Chair, and Members, Committee on Finance

FROM: Betty Lou Larson, Legislative Liaison, Catholic Charities Hawaii

Hearing: Friday, April 1, 2011, 3:00 p.m.; Room 308

Chair Oshiro, Vice Chair Lee, and Members of the Committee on Finance:

Thank you for the opportunity provide written testimony on SB 1241, SD1. I am Betty Lou Larson, Legislative Liaison for housing and homelessness issues at Catholic Charities Hawaii. Catholic Charities Hawaii supports this bill.

This bill would repeal the conveyance tax exemption for properties that are sold to any non-profit or for-profit organization that is certified by the state's Hawaii Housing Finance and Development Corporation (HHFDC) for low-income housing development. As we understand it, these sellers usually are selling properties at market prices. It is the buyers who are going to use the property to create or retain affordable rental housing units. The seller reaps any profit from the sale, just as if they had sold it to any other entity. This seems to be a loophole in the law. It would seem fair for the seller to pay the conveyance tax.

In these tough economic times, any additional funds going to the conveyance tax would also have a percentage allocated to create more affordable rental housing. The 25% of the conveyance tax that currently goes to the Rental Housing Trust Fund is a very important tool for the State to facilitate the development of affordable housing.

We urge you to support this bill. Thank you for the opportunity to testify on SB 1241.

