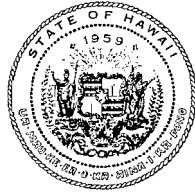


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SENATE COMMITTEE ON INTERGOVERNMENTAL AFFAIRS

TESTIMONY REGARDING SB 2690 RELATING TO DISPOSITION OF CONVEYANCE TAX

February 7, 2006

This bill would disburse 10% of the conveyance tax realized from the sale of homes worth \$1 million or more to the respective county for use toward a homeowner's tax credit as allowed by ordinance. The bill would take effect on July 1, 2006.

The Department of Taxation ("Department") **opposes** this bill and further encourages this Committee to hold this measure.

I. **INCENTIVES FOR HOME OWNERSHIP AND PROVIDING RELIEF FOR HIGH PROPERTY TAXES ARE COUNTY ISSUES—NOT THE STATE'S.**

The purpose of this legislation, seemingly, is to provide assistance to counties where property tax assessments have skyrocketed as a result of increased property values, while tax rates have remained the same. In recent months, homeowners on the island of O'ahu specifically have been up in arms over the City & County of Honolulu's increases in property tax bills without commensurate relief. By law, counties were vested with the unilateral right to assess and collect taxes on real property. The State's only tax upon a transaction or ownership of real property is the conveyance tax.

By this legislation, **the state legislature is injecting itself into a county issue** by seeking to divert state tax dollars to finance what is otherwise strictly a county issue—assessment and incentives for home ownership and relief from high tax bills. The state made the decision to exempt itself from real property taxation and this legislation is in direct conflict with home rule principles. The State should not be in the business of diverting its necessary tax revenue to provide real property tax relief caused by the laws and ordinances made by a county. This is a county issue and the counties, alone, should decide whether and how much any tax credit for homeowners is due and owing.

II. **THE DEPARTMENT PROVIDES ADDITIONAL COMMENTS.**

IMPACT ON OTHER PROGRAMS AND THE GENERAL FUND—By diverting funds from the conveyance tax, which otherwise is credited to the general fund, programs and priorities of the

State may be negatively impacted.

DEPENDENT UPON COUNTY ORDINANCE—This bill provides the funding; yet the tax credit upon which these funds are to be used is a condition subsequent. If the committee finds this legislation compelling, it should adopt more stringent conditions necessary to occur before such funds are diverted to the counties. What is the disposition of this revenue if a county fails to adopt such a tax credit? This bill is presently worded such that the money is diverted first; and the credit is to be created after. This bill, seeing how it is solving a problem that the counties have made, should make the counties adopt a credit first.

QUARTERLY BASIS—It is not apparent why these funds should be given to counties on a quarterly basis. For example, county taxes in Honolulu County are assessed and paid only semi-yearly. Should this credit to the county likewise be semi-yearly?

BASED UPON VALUE—By only diverting revenues from homes being sold valuing \$1 million or more, the Department is burdened with having to determine house purchase price per transaction and assure the proper amount is diverted. Whereas, for the other diversions of conveyance tax, the amount is not dependent upon the transaction price and is taken from the conveyance tax as a whole. The Department objects to legislation dependent upon market values.

MARKET FORCES—This legislation could have the unintended consequence of manipulating market forces. For example, sellers could intentionally consummate transactions for less than \$1 million with the intent to avoid having to fund a county credit from state tax.

This legislation will result in revenue loss to the State of approximately \$1.1 million annually.

For the reasons set forth herein, the Department respectfully requests this Committee hold this measure as proposed. Thank you for this opportunity to testify.

Respectfully submitted,



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Director of Taxation