Bill 20
Testimony

MISC. COM. 251

HAWAIʻI BUDGET & POLICY CENTER

Testimony of the Hawaiʻi Budget and Policy Center
<u>COMMENTS Bill 20</u> – Relating to Real Property Taxation
City and County of Honolulu, City Council Chamber
Wednesday, April 14th, 2021 at 10:00AM

Aloha Chair Waters and members of the Honolulu City Council,

Thank-you for the opportunity to provide **<u>comments on Bill 20</u>**.

We at the Hawaiʻi Budget and Policy Center work towards more equitable and sustainable tax and budget policy. For this reason we oppose the increase of the Residential A threshold from $1,000,000 to $1,300,000. An owner with a second home worth $1.2M would realize a tax reduction of $2,400, while the City of Honolulu would have less resources to fix our roads, maintain public safety and provide services for those not fortunate enough to own a first or second home.

Additionally, there is little evidence that a tax deduction to owners of second homes enhances the public good--- many homes in the $1M and above range are left vacant and even if they are rented to long-term tenants, any savings for the landlord are not passed onto renters since rents are set by market prices not by landlord expenses. If a landlord pays off a mortgage or secures a lower interest rate on their loan, they don't lower the cost of rent- and why would they when someone else will pay market prices? It defies logic for a private landlord to charge anything other than market rate rent. Pricing is set by rental demand, not landlord costs. This is especially true in Hawaiʻi where the supply of available rentals is essentially fixed – any growth of rental stock is less than 0.5% a year. As stated in a Hawaii Tax Commission Report from 2017:

"Property tax is mostly born by owners and not renters since the amount of property is fixed."

In this way, a reduction in property taxes for owners of second homes worth less than $1.3M will most likely simply reduce public funds and increase the income of already high-income property owners— many of whom do not live in Hawaiʻi. If the purpose is to reduce the cost of rent for people renting $1M homes, then it should be structured as rental assistance to reduce actual rent costs instead of a tax break for investment property owners.

As much as we do not support a tax reduction for investment property owners, we **<u>strongly support</u>** the increase in the number of tax tiers for the following reasons:

1. Increasing the number of tiers allows for more targeted and progressive tax rates. Last year Maui County created three tiers for investment properties (0-800k, 800-$1.5M and $1.5M+) and implemented progressive tax rates so that owners with higher value properties and more equity gains from housing market, would pay higher rates.

2. Higher value second homes are more likely to have out-of-state owners, who do not spend money locally and are benefiting from some of the lowest investment property tax rates in the country.

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3. Also, the higher the value of the home the less likely it is to be used as a long-term rental since there are few high-income renters (most prefer to buy), and high-end property owners are less likely to assume the risks of renting out their property.

4. Upcoming federal infrastructure funding is very likely to require matching County funds, and having these tiers would **<u>give the County maximum flexibility</u>** to raise revenue in a progressive manner with minimal impact to local residents.

In summary, we strongly support the provisions to expand the tiers for investment property owners, but would oppose providing a tax break for owners of investment properties up to $1.3M, while so many residents still lack basic shelter.

Mahalo for this opportunity to testify.

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