

BILL014(23)
Testimony

MISC. COMM. 236

BUDGET (BUD)

BUDGET (BUD) Meeting

Meeting Date: May 15, 2023 @ 10:00 AM

Support: 0

Oppose: 0

I wish to comment: 1

Name: Michael McCurdy	Email: hammajang@hawaii.rr.com	Zip: 96789
Representing: Self	Position: I wish to comment	Submitted: May 15, 2023 @ 02:13 AM

May 13, 2023

To: City Council Committee on Budget
Councilmember Radiant Cordero, Chair
Councilmember Matt Weyer, Vice Chair

To: Real Property Taxation Permitted Interaction Group

From: Michael L. McCurdy

Re: Bill 14(2023), proposed CD1-MW1 - Relating to a One-Time Tax Credit

Comments only

Dear Chair and Committee Members:

The undersigned would like to offer comments on Bill 14 (2023), proposed CD1-MW1. The stated purpose of this bill is to alleviate the tax burden on homeowners caused by escalating property valuations.

The proposed Bill has several good features: it grants a certain degree of property tax relief for homeowners with residential exemptions, is easily implemented and has a set maximum amount, and is one-time. However, it also has limitations:

- Mayor Blangiardi has stated that the proposed credit is equivalent to a one-time homeowner exemption of \$86,000 (\$85,714.28 at fiscal 2023 tax rates, to be precise). If passed into law, this Bill would *decrease* the real property taxes of any owner-occupant whose real property assessment increased by less than this amount between the 2022 and 2023 assessment years. Such is the case with my residence in Mililani (TMK 94062042), which had assessed values of over \$1,000,000 in both the 2022 and 2023 assessment years. (The recent median sale price for a single-family home on Oahu is just under \$1,000,000.) Even though my real property tax bill would decrease by \$61, all \$300 of the credit would be applied against the \$45 million budgeted for these credits. This effect would be even more pronounced for parcels for which assessed values increased less than for mine, as would frequently be the case for parcels with lower assessed values. Thus part of the money budgeted for alleviating increased tax burdens would go to reducing the property taxes of *some* homeowners.
- No tax relief is being offered to real property owners who are not owner-occupants, e.g., those who have invested in real property for use as rentals. All such parcels contribute to Oahu's housing inventory. Increases in their assessments translate directly into tax liabilities that must be either passed on to tenants, or if that is not possible, absorbed by the owner. These include high-assessment parcels that are classified Residential A that are used as rentals.
- The net effect is to make Oahu's real property taxes more progressive in terms of assessed values, i.e., the effective tax rate increases as a function of assessed value.

As an alternative, I suggest the following:

- For owners whose parcels' assessed values increased by less than \$85,714.28, limit their tax credit to their marginal tax rate times the change in assessed values. These owners would experience no change in their property tax liability.
- For owners without a tax exemption whose parcels are classified Residential, calculate their tax liability based on their parcels' 2022 assessed values. These owners would also avoid any change in tax liability and if they are landlords, would lack the pretext of increasing rents because of a real property tax increase. They would continue to pay property taxes at a slightly higher effective rate than owner-occupants because of the latter's homeowner exemptions.
- Consider expediting relief for owners of parcels classified Residential A by passing one of the Bills establishing a Long-Term Lease tax class (e.g., Bill 24(2023), 25(2023) or 27(2023)) with an effective date of January 1, 2024 rather than July 1, 2024 or July 1, 2025. The intent should be to implement the new class in time to reduce the new class's property taxes that would be payable in February 2024.

The undersigned recognizes that it may be relatively late in the budgeting and taxation cycle to be undertaking changes of the kind suggested above. However, the proposed tax credit is one-time. If significant modification is not possible, measures should be taken to ensure that surprising escalations in property valuations do not recur, or if they do, to structure relief in a way that minimizes the increase in the progressive nature of the real property taxation process.

Thank you for the opportunity to submit these comments.

Sincerely,

Michael L. McCurdy