Real Property Tax Advisory Commission
Subcommittee on Classification
Group Leader: Ray Kamikawa
Members: Schuyler Cole, Nelson Higa, Eugene Soquena

The classification committee proposes the following recommendations:

1. Residential Class A (2d home or investor) – graduated tax rates as alternative.

   The committee has primarily focused on this classification due to fairness concerns about how the increased tax is structured. Currently, there is a $1 million assessed value cliff, wherein the affected properties are taxed at a higher $6.00 rate on the entire assessed value. When this new class was adopted, affected property owners did not appreciate at the time of the assessments in 2013 to scrutinize and possibly appeal any assessment at or above $1 million. In addition, property owners who were otherwise eligible for homeowner exemptions did not appreciate the importance of qualifying and filing for the exemption on a timely basis to fall outside of this new class. This situation has caused much concern in the community and has prompted Mayor Caldwell to ask the Real Property Assessment Division to examine this issue with the Commission.

   Our proposal is to keep the Residential Class A classification for 2d home and investors, but adopt a graduated tax rate, where the assessed value of the classified property below $1 million would be taxed at $3.50 and assessed value over that threshold taxed at a second rate. The second rate would be pegged at an amount to be revenue neutral or higher. This proposal would resolve the cliff effect under current law and go a long way to achieve more fairness.

   Our survey of the property tax data shows that there are about 150,000 owner-occupant units and less than 10,000 parcels with 3 or more units, vacant apartment-zoned lots, and military housing. Residential A under this proposal would include the balance of about 100,000 parcels in long term and short term rentals, as well as second homes and vacant residential lots. 7,300 of these 100,000 remain assessed above $1 million, the number impacted by the current law Residential A class.

2. Commercial class – graduated tax rates.

   Commercial properties have a similar assessed value distribution as residential, and could also be considered for a two-rate structure as for Residential Class A.

3. Third residential class – for short-term or transient rental use.

   Consideration should be given to establishing a third residential class based upon short-term or transient rental use. The term proposed would be the same as for the transient accommodations tax of less than 6 months under Chapter 237D, HRS. Included in this class would be the 810 units with nonconforming use permits, plus an additional estimated 3,000 to 4,000 units operating without permits.

4. Compliance and procedural issues.
   a. Coordinate with the Department of Taxation to cross-check and verify home exemption qualifications using data on Hawaii resident income tax returns.
   b. Have the Department of Taxation require on TAT returns the listing of the TMKs associated with the transient income being reported.
   c. Expand assessment methodology to include input from title companies, realtors, and appraiser. This would help improve the accuracy and timeliness of assessed values.
   d. Reassess high valued properties after a sale, as well as comparable properties in the same neighborhood.

Real Property Tax Advisory Commission
Subcommittee on Minimum Tax and Exemptions
Group Leader: Tom Yamashita
Members: Howard Garval, Amy Hirano

September 8, 2014: Amy, Howard, and I met to consider recommendations for minimum tax and exemptions. We have come up with the following recommendations:

1. Minimum tax: We recommend changing the minimum tax provision to language stating that operation of the exemption shall not reduce the tax below $300 for organizations holding IRC section 501(c)(3) status, and below $1,000 for other organizations. We discussed that there were certain commitments that a 501(c)(3) organization makes to qualify for its status, and those commitments justify the differential treatment.
2. Historic residential: We recommend changing the exemption to 50% of assessed value, provided that existing historic residential dedication contracts shall be honored until they are cancelable (although the contracts auto-renew, they are cancelable upon five years' notice any time after the fifth year).
3. For-profit child care centers: We recommend repealing the exemption because we believe for-profit entities should be treated alike. A child care center that makes the commitments required and thereby obtains 501(c)(3) status would, of course, be exempt like any other organization that has obtained 501(c)(3) status.
4. Credit unions: We recommend repealing the exemption because, even after having reviewed the testimony of the credit unions to the prior RPTAC, we find it impossible to distinguish credit unions from other not-for-profit organizations that are now taxed the same as for-profit businesses.
5. Hawaiian homestead land exemption: We recommend phasing the exemption out over a number of years. The properties and people in them are fundamentally the same as other residential properties and their occupants, so we find it difficult to exempt one class and tax the other.