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TO: Real Property Tax Advisory Commission
FROM: Natalie Iwasa, CPA
395-3233
DATE: Wednesday, October 22, 2014
RE: Draft Report (Comments)

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CITY COUNCIL
HONOLULU, HAWAII

Aloha Commissioners,

Thank you for your hard work and considering my testimony on this matter. Following are my comments regarding the draft report that has been posted online.

Background

Under this section you summarize results of the Residential A classification. It is important to note that had the council made the effective date later and then notified people of the potential for a higher rate, many of the people who were stuck with higher bills would have had time to apply for the homeowners' exemption.

Minimum Tax

You recommend that the minimum tax remain at \$300 for charitable organizations and be increased to \$1,000 for other nonprofit organizations. While I appreciate the differentiation between charitable and other nonprofit organizations, I think it should be taken further. Nonprofit organizations such as labor unions and membership clubs qualify for the exemption under Sect. 8-10.10. These organizations are allowed to pay lobbyists for laws that are favorable to them or their members. Taxpayers should not be subsidizing these organizations. Accordingly, there exemptions should be significantly reduced or eliminated.

In addition, the minimum tax does not take into account significant differences in value of properties held by these organizations. One organization may have a piece of property valued at \$500,000 while another has one valued in excess of several million dollars.

You recommend re-wording Sec. 8-11.1(g). Sec. 8-10.10, however, which is headed "Exemption- Charitable purposes," currently includes various types of nonprofit organizations, as you have noted. It would be cleaner to define charitable organizations under Sec. 8-10.10 (the same definition as used under the grants-in-aid ordinance could be used) and create a separate section for these other nonprofit organizations.

Historic Residential Homes

Honolulu has one of the most, if not the most, favorable real property tax incentives in the U.S. for historic properties. I therefore **support** a reduction in the exemption

amount. Your recommendation states that the existing dedication contracts be honored, "until they are cancelable." This wording seems to leave the effective date of the reduced exemption open. Consider adding stronger language that notice be given regarding the reduced exemption at the five-year renewal date.

For-Profit Child Care Centers

I **support** this recommendation. If for-profit child care centers would like to receive this exemption, they can apply for exempt status.

Credit Unions

I **support** this recommendation and note that since the prior commission made a similar recommendation, the annual cost to taxpayers has increased approximately half-a-million dollars.

Hawaiian Homestead Land Exemptions

There is a typographical error in the first sentence, to wit, "exemption" should be "exemptions."

Residential A Classification Rate

My preference is total repeal of this classification. The proposed recommended tiered rate provides some relief for the huge increase in tax experienced this fiscal year. The median value of a single-family home on Oahu hit \$700,000 earlier this year. Consideration should therefore be given to increasing the \$1 million threshold.

The commission indicates that the change to a two-tier rate structure "will eliminate the need for tax appeals . . ." While I agree tax appeals will be reduced, I do not think appeals will be eliminated.

Commercial Class

One of the six characteristics of good tax policy is simplicity. Creating a two-tiered rate for commercial properties adds to the complexity of the system.

Change Exemptions at Time of Sale

The city council is currently considering a bill that would allow the transfer of homeowners' exemptions at the time of sale. It appears the commission's recommendation goes a step further in that it would apply to all sales. This would be a significant change in the method real property tax exemptions are determined and would make it more difficult to project revenue for budgeting purposes.

In addition, it appears not to consider homeowners who qualify for the real property tax credit. To maintain fairness, credits should be allowed to transfer, too. However, I think it is important to consider whether this procedure is used by other municipalities, and if so, how it is functioning. The administration had previously testified that this system is currently in place on the Big Island, and that they are in the process of removing the policy.

Clear Instructions on Deadlines for Filing Appeals

I support clarification of the city's policies. On the issue of deadlines for filing tax appeals, however, I think it would be better to be consistent with other tax deadlines. Currently both federal and state deadlines for tax returns allow returns to be timely filed on the next business day if the deadline falls on a weekend or holiday. A change to allowing for the "weekend rule" for appeals would not create any hardship for the administration or the appeals boards but would be beneficial for taxpayers.