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OF HAWAII

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November 4, 2009

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2009 NOV -3 PM 2:34

The Honorable Nestor Garcia, Chair
Budget Committee
City Council
City & County of Honolulu
Honolulu, Hawaii 96813

Re: Bill 9, CD-1 and Bill 75 - Relating to the Real Property Tax Credit for Low Income Homeowners

Dear Chair and Council Members:

Thank you for the opportunity to share our observations and comments about the proposed measures to effect changes in the real property tax credit for low-income homeowners.

Bill 9 CD-1 would lower the threshold for the circuit breaker from 4% to 3% for those homeowners whose household income does not exceed $50,000 per year. For those households where the titleholder is 75 years of age or older, the threshold would be lowered to 2%. Thus, with this change, relief would be granted to those qualifying households and would insure that their tax bills do not represent more than either 2% or 3% of their household income depending on age provided the household income does not exceed $50,000.

Bill 75 lowers the threshold that would trigger the credit from 4% to 3% for those homeowners whose income is less than $50,000 but expands the current credit set at 4% of income to any homeowner whose household income is greater than $50,000. This measure also applies the amount of the credit on a pro rata basis so that the amount due from the qualifying homeowner would be identical for the semiannual payments.

Of the these two proposals that would amend the real property tax credit, we recommend Bill 75 for your consideration as it would grant greater tax relief for lower-income households while extending tax relief to all homeowners where the person's tax bill exceeds 4% of income. This would guarantee that no homeowner's tax bill would ever exceed that taxpayer's ability to pay as once the tax burden hits 4% of income, everything over and above that ceiling would be forgiven.

Mindful of the revenue impact that the combination of the circuit breaker and the homeowners' exemption would have on City finances, it would be our recommendation that the homeowners' exemption be repealed. We have long advised how archaic the homeowners' exemption is in granting tax relief regardless of the need for that tax relief. Unless a meaningful mechanism, such as the circuit breaker, is offered to all homeowners, the Council will be beset with constant cries of homeowners' being taxed out of their homes. Thus, replacing the homeowners' exemption with a universally available circuit breaker will guarantee that the homeowner will never pay more than the specified percentage of their income for real property taxes.

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As we have pointed out numerous times before, age and disability are not indicators of a homeowner's ability to pay. The circuit breaker also addresses those situations where the homeowner's property value has appreciated at no fault of the homeowner. It, therefore, contributes to the integrity of the assessment process as it obviates gimmicks to artificially set values for property like Proposition 13.

Repeal of the homeowners' exemption would also allow the value of the current exemption to be added back into the taxable base. This, in turn, would allow the Council to rectify the shift of the tax burden from residential to nonresidential properties while still generating the needed revenues to run the City. It would allow the Council to lower the rate for both residential and nonresidential properties.

While we don't want to complicate this effort, we would suggest consideration be given to moving the deadline for application of the tax credit to the spring, perhaps after the income tax filing date so the qualification for the credit could be based on the most recent year of income. As currently administered, the credit is based on income realized a year and a half before the beginning of the fiscal year during which the credit would be applied. Circumstances could change in that length of time, making the credit, or the lack of applying, irrelevant for the affected homeowner. While moving the deadline for application closer to the start of the fiscal year for which the credit would apply may impose some challenges for administrators, such a move would guarantee that tax relief is based on the most recent income received by the applicant homeowner. With computers and the ability to cross reference real property tax bills with qualifying income, we believe that such a move would be in the best interest of the overburdened homeowner.

Thank you for this opportunity to share our observations and comments about improving tax relief for all homeowners utilizing the circuit breaker approach.

Very truly yours,

Lowell L. Kalapa
President

LLK/jad