

EDB Committee

From: Maui Vacation Rental Association <jenrusso@mauivacationrentalassociation.org>
Sent: Monday, November 9, 2020 9:50 AM
To: EDB Committee
Subject: testimony for edb-37

RE: Tax Reform EDB-37

Dear Committee Chair Keani N.W. Rawlins-Fernandez and Economic Development and Budget Committee Members

Aloha and thank you for the opportunity to submit testimony.

There seems to be some overlap on the two bills in EDB-37, but it does not say in “A BILL FOR AN ORDINANCE RELATED TO REAL PROPERTY TAX” if the plan is to incorporate the contents of “A BILL FOR AN ORDINANCE AMENDING CHAPTER 3.48.305 MAUI COUNTY CODE, RELATING TO CLASSIFICATION OF REAL PROPERTY” bill and vice versa. Do they intend to combine the two? One bill is removing the section C regarding condos, and the other rewrites that section, but the rewrite does not use the “long term rental” classification from the other bill. Does that mean that the tax code does not want condos to rent long term? That seems counterintuitive to the bills. One bill starts by December 31, 2020, the other negates that bill and removes that section of the code in January of 2022.

Ultimately, I want to support tax reform, and I want to support long term rental incentives in the tax code, but these bills feel rushed, and there are so many unclear points.

Is it the intention for our tax policy to have the individually owned condos and short term rental home permit holders to be the biggest source of tax revenues for the county? If so, I think we should also include that in the intent of these tax bills. This should be reflected in our tax policy clearly so we can tie that into forecasting and long range planning. Item #5 in the introduction to the bill “A BILL FOR AN ORDINANCE AMENDING CHAPTER 3.48.305 MAUI COUNTY CODE, RELATING TO CLASSIFICATION OF REAL PROPERTY” talks about revenue stability, this area needs to address the intent to keep individually owned condos as the largest source of revenue for the county.

We should be taking a look at how many residents are owners of short term rentals and create a specific tax exemption for them. We can do better at supporting our residents that have gone into guest accommodations as their small businesses. These properties support a significant hub of other jobs in our community, and all of these dollars exponentially increase in our local economy. Some local residents trying to hold on to their family property have to short term rent in order to afford the taxes and upkeep on the properties. There should be a qualification for residents who short term rent to have an exemption. There are 1262 Hawaii residents that paid \$9.3 million of the \$101,440 collected in 2019. All of these community members had to shut down their businesses in 2020, and pay property tax at a higher rate that assumed they were operating. These businesses were specifically excluded from CARES Act funding.

The transmittal of “A BILL FOR AN ORDINANCE AMENDING CHAPTER 3.48.305 MAUI COUNTY CODE, RELATING TO CLASSIFICATION OF REAL PROPERTY” addresses the need for parity in tax classifications in its intent, but it really doesn’t venture deep enough. There should also be more parity in the assessment methodology in the classifications. In 2019 the average condo unit assessment was \$773,964, with a tax of \$8,320, while the resort classification had an average per room assessment of \$351,647 with a tax of \$3,868. While these are very simplified numbers, they still bear a significance that could be addressed in this reform.

Tax Class 2019	Total Units	Total Assessed Value	Average Assessment per unit/room	Tax Rate	Total Tax	Total tax per unit room
Short Term Rental (Condo Units)	11220	\$8,683,875,900	\$773,964	\$10.75 per \$1000 value	\$93,351,666	\$8,320
Resort	8562	\$3,010,800,189	\$351,647	\$11.00 per \$100 val.	\$33,118,802	\$3,868

Data source: Maui County Real Property Tax

In the proposed “A BILL FOR AN ORDINANCE RELATED TO REAL PROPERTY TAX” where the “Long-term rental” classification is established, on page 8 item B number 4 disallows commercialized residential and short term rental classifications from qualifying for a long term rental exemption. This sends the wrong message, if the intention is to convert property to long term housing, the properties in commercial residential and short term rental should also qualify.

In the proposed “A BILL FOR AN ORDINANCE RELATED TO REAL PROPERTY TAX” where the “Long-term rental” classification is established, this bill should also state clearly what agency is going to be confirming and enforcing the exemption and making sure that folks are not just creating leases to qualify for the discount, and what that methodology will be.

Thank you again for the opportunity to comment.

Best,

Jen Russo
Maui Vacation Rental Association

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Best,

Jen Russo
Executive Director
Maui Vacation Rental Association
mauivacationrentalassociation.org
140 Hoohana St Suite 210
Kahului, HI 96732