

EXECUTIVE CHAMBERS

HONOLULU

July 11, 2005

STATEMENT OF OBJECTIONS TO HOUSE BILL NO. 1554

Honorable Members  
Twenty-Third Legislature  
State of Hawaii

Pursuant to Section 16 of Article III of the Constitution of the State of Hawaii, I am returning herewith, without my approval, House Bill No. 1554, entitled "A Bill for an Act Relating to Leasehold Conversion."

The purpose of House Bill No. 1554 is to provide an incentive for fee owners of multi-family or single-family residential leasehold property to sell the fee interest in their real property by allowing an exclusion from their taxable income of fifty percent of the income received from the sale of their leased fee interest, but not to exceed an aggregate cap of \$75,000 for "all taxpayers in the State" in 2006.

Although the provision of an incentive for fee owners to sell the fee interest in their residential real property is an idea that has merit, this bill is objectionable because it provides an inadequate incentive for a reasonable number of owners to sell their leased fee interest.

The aggregate cap frustrates the bill's intended purpose to promote widespread leasehold conversion. The aggregate cap of \$75,000 is so low it will be satisfied with only \$150,000 in total leased fee sales. The cap would easily be exceeded by the sale of just one or two single-family homes, or a few condominium units. This bill contains no criteria or guideline that could be used by the Department of Taxation to determine which of the fee owners would qualify for the exclusion from income of up to \$75,000 "in the aggregate for all taxpayers in the State." Consequently, the Department of Taxation could be faced with tax appeals and litigation regarding this bill that far outweigh its actual benefit. Further, to implement the bill

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for only one year, the Department of Taxation would be faced with the administrative burdens of establishing guidelines, training personnel, developing and implementing a public information campaign, creating and printing the exemption forms, and reviewing an unknown number of claims.

For the foregoing reasons, I am returning House Bill No. 1554 without my approval.

Respectfully,

LINDA LINGLE  
Governor of Hawaii