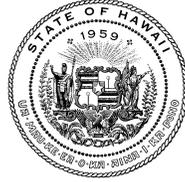


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July 29, 2005

DEPARTMENT OF TAXATION ANNOUNCEMENT NO. 2005-10

RE: Act 196, Session Laws of Hawaii 2005, Relating to Housing (Act 196)

On July 6, 2005, the Governor signed S.B. No. 179, S.D. 3, H.D. 2, C.D. 1 into law as Act 196. The purpose of this Act is to address Hawaii's critical affordable housing and homelessness problems. The Act makes substantial changes in the manner in which the State of Hawaii administers its low-income housing projects and programs. Act 196 adds a new chapter to the Hawaii Revised Statutes (HRS) establishing the Hawaii Housing Finance and Development Administration (HHFDA), to be placed within DBEDT for administrative purposes. The HCDCH will be split into two organizations, with the HHFDA performing the function of housing finance and development. HCDCH will continue to perform its function of developing and maintaining public housing.

Act 196 contains a number of changes to current law for the purpose of encouraging the development of low-income housing. It contains the following tax-related provisions:

- (1) Amends HRS § 201G-116 to:
 - a. Authorize HCDCH to establish and collect service fees in connection with the certification process (HRS § 235-29 requires certification or approval pursuant to HRS § 201G-116 in order for the taxpayer to be eligible for an exemption from the general excise tax for development of low-income housing projects);
 - b. Add a category of developers that are eligible for certification for exemption from general excise taxes. Specifically, a qualified person or firm that provides affordable rental housing where at least 50% of the available units are for households with incomes at or below the 80% median family income, in the area, as determined by the U.S. Department of Housing and Urban Development, of which 20% of the available units are for households with incomes at or below 60% of the area median income, as determined by the U.S. Department of Housing and Urban Development
- (2) Amends HRS § 235-110.8 by increasing the low-income housing tax credit from 30% to 50% of the applicable percentage of the qualified basis of each building

located in Hawaii; and

- (3) Amends HRS § 247-3 by providing an exemption from the conveyance tax for the conveyance of real property to any non-profit or for-profit organization that has been certified by HCDCH for low-income housing development.

These tax-related provisions of the Act took effect on July 1, 2005.

Current forms and other tax information are available at the Department's website at: www.state.hi.us/tax. If you know which tax form or publication you need, please call the Department's request line at 808-587-7572, or toll-free from the neighbor islands and continental U.S. at 1-800-222-7572. This service is available 24 hours a day, 7 days a week.

A handwritten signature in black ink, appearing to read "Kurt Kawafuchi", with a stylized flourish at the end.

KURT KAWAFUCHI
Director of Taxation

HRS Sections Explained: HRS sections 201G-116, 235-110.8, and 247-3.