Should Vacation Homes in Hawai‘i be Taxed at Higher Rates?

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Bill takes aim at investors in high-end Hawai‘i homes to increase funding for public schools.

By Rachel Ross

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Property taxes on investment homes—more often referred to as second homes or vacation homes—are a hot topic in Honolulu lately. In October of last year, the City and County’s Residential A classification, which taxes second homes valued at or more than $1 million at a higher rate, was deemed unconstitutional. That decision was then overturned in December. Residential A classified properties are taxed at 0.6 percent, nearly double the rate of standard residential homes, which are taxed at 0.35 percent. This tax generates approximately $39 million per year for the City and County of Honolulu.

And now, Senate Bill 683 is being negotiated by the state House and Senate, proposing an amendment to the

Constitution to allow the state to establish a surcharge on tax on second homes and on transient accommodations. Sounds familiar. If it gets the necessary approval, it could go on the ballot in our next election.

In this case, the funds generated would have a direct impact on our children, as they would be designated to support Hawai‘i’s public schools. The threshold is higher for this surcharge—it would be put upon homes that are valued at $2 million or more that are not inhabited as the owner’s primary residence or have a homeowners exemption.

Not many are likely to argue about the need to increase funding for our public schools. However, critics of SB 683 and the Residential A designation argue that, if you nearly double the tax rate at a certain threshold, you’ll cause a spike in demand for the houses just below that level. A $900,000 house suddenly becomes a more than $100,000 better deal than a $1 million house. **Research by UHERO, which posted an analysis in February,** shows that about 43 percent of homes in Hawai‘i were rented in 2015. If owners of those properties see a rise in property taxes, they may well pass those costs on to their tenants, and the effective result would be a renter’s tax. Thus there are limits written into the bill stating that properties rented for up to $1,500/month would not be affected. The state Legislature is scheduled to adjourn on May 4.

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