This measure promotes the economic self-sufficiency and housing security of Native Hawaiian and other Hawai‘i residents and families, by incentivizing participation in financial literacy and housing savings account programs through state income tax deductions.

We believe every family in Hawai‘i can one day be strong, resilient, and housing-secure. Unfortunately, studies show that today, many Native Hawaiians and Hawai‘i residents do not have access to a stable and permanent home. Without adequate systems in place to promote financial literacy and self-sufficiency in our communities, current and future generations may remain ill-equipped to excel and overcome common financial challenges, such as saving for a down payment on a home or even a rental deposit and first month’s rent.

When administered by service providers, programs involving individual development accounts for housing, otherwise known as individual housing accounts (IHAs), are a proven approach to enabling individuals and families to purchase their first home, or secure rental housing. Through financial education, one-on-one coaching, and savings match incentives, IHA programs work to build financial literacy and security, eventually allowing participants to make a down payment on a home, or make a rental deposit and pay for the first month’s rent on a rental unit. Successful IHA programs, including those funded by OHA and utilized by Native Hawaiians and other Hawai‘i residents, thus help to sustain Hawai‘i’s middle class, and provide key opportunities to improve upward social mobility.

Currently, savings in IHAs administered by traditional banks can qualify for an adjusted gross income (AGI) deduction, up to a certain limit, for state income tax and certain income-based social safety net purposes. Notably, account holders for such IHAs do not necessarily receive financial literacy training or savings match incentives. Meanwhile, IHAs administered by community development financial institution (CDFI) service providers, who do provide concurrent financial literacy and savings match incentives, currently do not qualify for an AGI deduction.

In addition, there is no AGI deduction for savings in rental IHAs, specifically designed to help houseless individuals and families secure a rental unit.

HB1746/SB2135 would support Hawai‘i’s residents in securing better financial futures for themselves and their families, by allowing savings in CDFI-administered IHAs, including rental IHAs, to qualify for an AGI deduction. In addition, this measure would raise the limit on the annual AGI deduction for homeownership IHAs for the first time in 35 years, from $5,000 to $15,000 for individuals, and from $10,000 to $30,000 for married couples (up to an aggregate total of $75,000 in deductions for both individuals and couples). The AGI deduction for rental IHAs would be limited to an aggregate total of $2,500. These AGI deductions would reduce IHA program participants’ state income tax liability during applicable years, potentially allow them to qualify or maintain their eligibility for income-based tax credits and social safety net programs, and feasibly save more. The tax relief provided under HB1746/SB2135 would therefore encourage Native Hawaiians and others to participate in IHA programs, directly supplement their efforts to
obtain secure and sustainable housing, and hopefully encourage establishment of more IHA programs.

How does this work?
The savings deduction is a dollar-for-dollar reduction of an individual’s taxable income, up to an established limit. Every dollar saved in an IHA can be deducted from account holders’ AGI, which is used to calculate their state income taxes and determine their eligibility for income-based tax credits and social safety net services.

For example, a family with two children who saves approximately $796 per month (18.75% of a gross income of $51,000), will be able to reduce their tax liability by $726 a year, and, with the savings match currently provided under OHA-funded, CDFI-administered IHA programs, could afford a down-payment on a market-rate home within 5 years. During this time, they would also maintain their eligibility for the food excise tax credit and potentially other programs as well.

Would this bill impact the state general fund?
Because this bill would establish new tax deductions, it may reduce state income tax liability for some individuals and families, thereby potentially reducing general fund income tax revenues. However, the reductions in general fund revenue would likely be minimal, as the deduction would only be for low-income families who qualify for and complete CDFI-administered IHA programs. Any tax revenue impacts would also be offset by IHA program participants’ increased financial literacy and capacity. Notably, every dollar of income not taxed under this plan will go into a regulated and monitored savings account and will be cycled into the local housing market in the short term; deducted savings used for anything other than the purchase or rental of a primary residence would be subject to penalties. Accordingly, the IHA tax deduction in HB1746/SB2135 is a highly targeted, low-cost method of stabilizing Hawai’i’s middle class, encouraging and directly supporting asset-building and housing security for our residents and their families.