

Hawaii

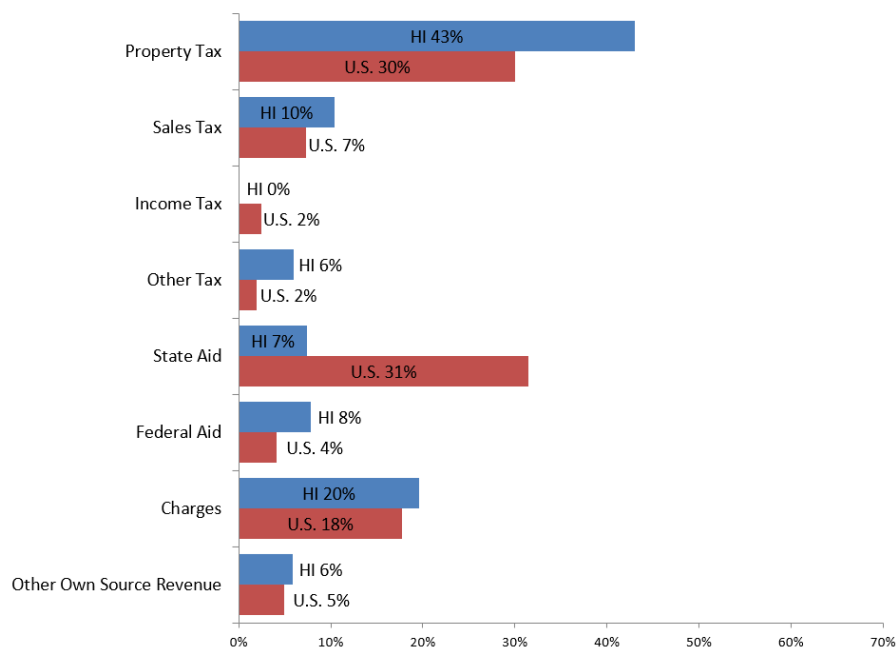
Highlights

Government in Hawaii is highly centralized, with the state government being the dominant player. Local governments comprise essentially four county governments: Hawaii County, Maui County, Kauai County, and the City and County of Honolulu. A fifth county, Kalawao, does not have fully functional county status. The Hawaii State Constitution places responsibility at the state level for the costliest functions of government, including K-12 public education, which explains why state aid makes up a much smaller share of local government general revenue in Hawaii than nationally.

Counties in Hawaii have less revenue-raising authority than local governments do in most states. With limited taxing authority, property taxes account for a much higher percentage of local government general revenue in Hawaii than nationally (figure HI-1).

Hawaii’s classified property tax system has nine (Honolulu and Hawaii counties) to ten (Maui and Kauai counties) separate property classes. In this tourism-dependent state, the highest rates are levied on visitor-industry-related properties—hotel and resort properties, vacation rentals, and timeshares—to attempt to export taxes to nonresident property owners and visitors. The lowest rates are applied to owner-occupied residential properties. Just under a third of property taxes are paid by out of state property owners (Hawaii Department of Business, Economic Development, and Tourism 2017a).

Figure HI-1
Sources of Local General Revenue, Hawaii and U.S., 2017



Source: U.S. Census via Significant Features of the Property Tax

Property Tax Reliance

Between 2014 and 2018, Hawaii ranked first among the 50 states and the District of Columbia in median owner-occupied home value but ranked last in effective tax rate on a median-value owner-occupied home (table HI-1). In 2017, per capita property taxes and property taxes as a percentage of the state's personal income were considerably lower in Hawaii than in most other states (table HI-1).

Table HI-1
Selected Hawaii Property Tax Statistics, 2017¹

	Hawaii	U.S. Average	Rank (of 51) <i>1 is highest</i>
Per capita property tax	\$1,235	\$1,618	32
Property tax percentage of personal income	2.3%	3.1%	39
Total property tax as percentage of state-local revenue	10.2%	16.2%	44
Median owner-occupied home value ²	\$587,700	\$222,041	1
Median real estate taxes paid for owner-occupied home ²	\$1,607	\$2,412	32
Effective tax rate, median owner-occupied home ³	0.3%	1.1%	51

Sources: [U.S. Census via Significant Features of the Property Tax](#), American Community Survey

¹ All revenue numbers in this table include the state government as well as local governments.

² The statistics for [median owner-occupied home value](#) and [median real estate taxes paid for owner-occupied home](#) are five-year average statistics for years 2014-2018.

³ Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

Administration and Assessment

In Hawaii, only the four county governments use the property tax, and only real property is taxed. Each county has sole discretion on property tax administration, including what property to tax, at what rate, and who gets tax relief and how much. All taxable real property is assessed at 100 percent of fair market value, and property is valued and assessed annually. Property tax rates are also adjusted annually. For fiscal year 2016, tax rates range from zero on “public service” properties in Honolulu to 15.43 percent on timeshares in Maui County (Hawaii Department of Business, Economic Development, and Tourism 2018b).

An unusual feature of Hawaii's residential housing market is that the state has a sizable number of leasehold properties. In leasehold housing, the homeowner owns the improvements but leases the land. For property tax purposes, the land is assessed at its fee simple (rather than its smaller leasehold value), and the semiannual tax bill, which includes both the tax on land and the tax on improvements, is paid by the homeowner (lessee) rather than the landowner (lessor) (Kwak and Mak 2011).

Limits on Property Taxation

Hawaii places no statewide limit on property tax rates and has no state-imposed limit on the rate of growth of assessed valuation, but Kauai limits growth in assessments to 3 percent for homeowners who qualify for a home exemption or a beneficial tax rate due to long-term rental.

Property Tax Relief and Incentives

The state of Hawaii delegates all property tax authority to the counties so property tax relief and incentives vary from county to county with no state oversight. The basic home exemption is set by the county and ranges from \$40,000 in Hawaii County to \$200,000 in Maui County; higher amounts apply to the elderly. To qualify for the home exemption, a property must be the owner's principal residence. Some form of circuit breaker based on income is available in Maui, Kauai, and Honolulu counties, but not in Hawaii County. The blind, the deaf, leprosy (Hansen's disease) patients, totally disabled persons, disabled veterans, low-moderate income housing, churches, charitable organizations, public utilities, schools, credit unions, historic residential properties, and land dedicated for agriculture, among others, also qualify for property tax exemption/relief. (table HI-2).

Among other incentives for economic development, Hawaii employs enterprise zones and tax increment financing. Enterprise zones may include a property tax reduction, but the state also provides credits against state income, unemployment, and general excise taxes.

Table HI-2
Hawaii Property Tax Features, 2018

Feature	Hawaii	Count for 50 states plus DC
Statewide classification of real property	Yes	25
Assessment of property primarily by county	Yes	31
Limits on property tax rates or levies	No	45
Limits on the rate of growth of assessed value	Yes	19
Circuit breaker property tax relief program	Yes	34

Sources: Significant Features of the Property Tax

Key Property Tax History

Following statehood in 1959, Hawaii's state government administered the property tax. The 1978 revision of the state constitution forced the state to turn over the property tax to the counties, but the counties were not authorized to set their own property tax rates until 1989.

Between 1965 and 1977, Hawaii experimented with a statewide split-rate property tax system to encourage economic growth and affect land reform (Kwak and Mak 2011). Under the split-rate system, land was taxed at a higher rate than were improvements. The experiment ended partly because the system was thought to be overly complicated to administer and partly because residents no longer desired high rates of economic growth after years of stunning rates of tourism-induced economic growth following statehood.

After the property tax was transferred to the counties, some counties brought back the split-rate property tax at various times. By fiscal year 1999, three of the four counties—Maui being the exception—had brought back this tax. Between fiscal year 1989 and fiscal year 1998, accelerating land values prompted the City and County of Honolulu to provide additional tax relief to all owners of improved residential property by reducing their property tax rate on land while keeping the tax rate on improvements unchanged. This resulted in an unusual, inverted tax structure in which improvements were taxed at a higher rate than was land (Kwak and Mak 2011). In fiscal year 2006, Kauai County also adopted the inverted split-rate property tax for some property classes (Kwak and Mak 2011; Kato, Kwak, and Mak 2011).

As part of a major overhaul of the Kauai County property tax system beginning in fiscal year 2013, the county no longer produces separate assessments for land and improvements and applies a single tax rate for each property class (Schmidt 2012). Today, tax rates vary among the counties; but in all four counties, land and improvements within each class are taxed at a single rate.

In 2013, the City and County of Honolulu created the “Residential A” property classification, whereby a higher property tax rate (currently at \$6 per \$1,000 of assessed value versus the standard residential rate of \$3.50 per \$1,000 of assessed value) is applied to residential properties valued at \$1 million or more that do not have a current home exemption. Ostensibly, “Residential A” classification targets second-home buyers and investors, many of them from the U.S. mainland and foreign countries (Hawaii Department of Business, Economic Development, and Tourism 2016). However, it is also affecting some local residential property owners, as property values have been rising since the end of the Great Recession. The “Residential A” property classification was appealed, with the attorney for the property owner filing the appeal arguing that “Residential A” property classification violates the equal protection clause under Hawaii and U.S. constitutions (Shikina 2015). A tax appeal judge ruled the “Residential A” property classification unconstitutional, but months later reversed the decision and let the “Residential A” property tax classification and higher tax rate stand (Cocke 2016).

Recent Developments

In Maui County, a group of timeshare owners filed a lawsuit in 2013 against the county alleging that it violated the Sunshine Law when it set the fiscal year 2014 property tax rate on timeshare properties (Perry 2013). Timeshare properties were included in the hotel and resort property tax classification in Maui until 2004, when the county created a separate real property tax classification for them. In fiscal year 2017, timeshares in Maui County were taxed at a rate of 15.43 percent per \$1,000 net taxable assessed value, compared to 9.37 percent on hotel and resort properties (Hawaii Department of

Business, Economic Development, and Tourism 2017). Plaintiffs argue that the county violated the equal protection clause of the U.S. and Hawaii constitutions because timeshare use is no different from hotel and resort use and both should be taxed at the same tax rate (Imada 2016). In March 2018, a circuit court judge ruled the classification for timeshares was “invalid and void” since the only difference between a timeshare property and hotel is the existence of a timeshare plan and not a difference in use, which would be required to establish a distinct class. The county has appealed the ruling (Tanji 2018). The timeshare owners requested the case be transferred to the Supreme Court. That request was granted, and the transfer was ordered in February 2019 (Civil No. 13-1-0848(2)). In May, the case was sent to mediation (Tax Foundation of Hawaii).

In 2017, the Hawaii State Teachers Association proposed a property tax surcharge levied by the state government as a way to increase funding for education. Hawaii is the only state in the country that does not use the property tax to help pay for K-12 education. The bill required an amendment to the Hawaii Constitution because counties currently have the sole power to levy property taxes. This bill died in conference committee in 2017, but a similar bill (Senate Bill 2922) won legislative approval in 2018 (Yamachika 2017). However, the constitutional amendment never went before voters after it was struck from the ballot less than a month before the election. The Hawaii Supreme Court ruled the ballot question did not comply with the requirements that the question be “clear and not misleading” (Jones 2018).

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