HAWAI‘I APPLESEED
CENTER FOR LAW & ECONOMIC JUSTICE

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Hawai‘i’s conveyance tax can be an effective tool to address our housing crisis

Hawai‘i lawmakers have an opportunity to tailor the sales tax on real property so that it reinvests nonresident wealth into our island communities through affordable housing development.

HONOLULU, Hawai‘i — Multiple bills are moving through the state legislature during the 2024 session that would make changes to the state’s conveyance tax aimed at boosting the production of affordable housing. That includes HB2364, a Green Administration bill that passed through a joint Housing and Water & Land committee hearing Feb. 7.

Not to be confused with property taxes, the conveyance tax is a tax on the sale of real property. Compared to other jurisdictions in which property is very expensive, Hawai‘i has very low conveyance tax rates, including on property selling for multiple millions of dollars. This contributes to high rates of investment in property by out-of-state buyers, driving up housing costs for residents.

Conveyance tax rates do increase along with the value of the sold property, and revenues from the tax are split between the general fund and two special funds: the Land Conservation Fund (LCF) and the Rental Housing Revolving Fund (RHRF). The RHRF is one of the primary ways the state finances affordable housing development through the Hawai‘i Housing Finance and Development Corporation.

“Because a significant portion of revenue collected from this tax comes from the sale of multi-million dollar mansions—most of which are bought by out-of-state investors—and because a significant portion of the revenue goes directly to funding affordable housing development, the conveyance tax could be shaped into a highly effective tool to meet the housing needs of local families using out-of-state wealth,” said Arjuna Heim, Hawai‘i Appleseed Center for Law & Economic Justice Senior Policy Analyst for Affordable Housing.

In a new policy brief, Heim lays out how the state could make adjustments to the conveyance tax to accomplish that goal. Keys to maximizing the success of this policy change include:

- Progressively raising Hawai‘i's conveyance tax rates on property sales valued over $4 million, the point at which Appleseed research shows almost all property sales go to out of state investors;
- Removing arbitrary caps set by the state that limit the amount of revenue deposited into the RHRF (and the LCF) to maximize their effectiveness; and
- Establishing a dedicated revenue stream from the conveyance tax to the Dwelling Unit Revolving Fund (DURF), a third special fund used to develop critical infrastructure associated with housing development.

If Hawai‘i Appleseed's recommendations are adopted by lawmakers, the conveyance tax could generate an estimated $279 million in total:

- $139 million for RHRF;
- $27 million each for DURF and LCF; and
- $85 million for the General Fund.

“There is an urgent need for the government to make larger investments in funding affordable rental housing,” said Heim. “Projected housing demand estimates that some 4,000–5,000 additional affordable rental units must be added to our housing supply each year for the next five years to meet residents' needs. We won't accomplish that with piecemeal funding. The state needs a robust, dedicated source of funding, and the conveyance tax can provide that if properly leveraged to do so.”

Download the policy brief here.

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Hawai‘i Appleseed is committed to a more socially and economically just Hawai‘i, where everyone has genuine opportunities to achieve economic security and fulfill their potential. We change systems to address inequity and foster greater opportunity by conducting data analysis and research to address income inequality, educating policymakers and the public, engaging in collaborative problem solving and coalition building, and advocating for policy and systems change.