STAND. COM. REP. NO. 359

Honolulu, Hawaii **Fe 18**, 2009 RE: H.B. No. 1550 H.D. 1

Honorable Calvin K.Y. Say Speaker, House of Representatives Twenty-Fifth State Legislature Regular Session of 2009 State of Hawaii

Sir:

Your Committee on Labor & Public Employment, to which was referred H.B. No. 1550 entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose of this bill is to begin to address general fund revenue shortfalls by amending Hawaii's tax law to impose the state income tax on rollovers made by state and county employees from qualifying deferred-compensation plans and qualifying annuity plans to eligible retirement plans or individual retirement accounts.

The Department of Taxation (DOTAX) and Tax Foundation of Hawaii commented on this measure.

Currently, employees who roll over or transfer contributions from their deferred-compensation plans to purchase Employees' Retirement System membership service credits or to upgrade their Noncontributory Plan service to Hybrid Plan service in the future are not assessed an income tax on these funds. This situation poses a problem for pension distributions from the Hybrid Plan because by law, pension distributions from the Hybrid Plan are not subject to income tax. Therefore, these rollover or transferred funds would completely escape Hawaii income tax.



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Inasmuch as funds from deferred compensation plans would normally be taxed when an employee withdraws these funds since these funds were withheld from an employee's pre-tax wages, taxing the rolled over or transferred funds at the time they are rolled over or transferred would appear to be equitable and fair.

However, your Committee notes concerns raised by DOTAX that this bill, as currently written, would subject any individual transferring funds from qualified annuities or deferredcompensation plans into another qualified plan or individual retirement account to income tax. Accordingly, your Committee has amended this bill by stipulating that taxation of the rollover shall only apply to funds used solely to obtain retirement credits.

Technical, nonsubstantive amendments were also made for clarity, consistency, and style.

As affirmed by the record of votes of the members of your Committee on Labor & Public Employment that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 1550, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 1550, H.D. 1, and be referred to the Committee on Finance.

> Respectfully submitted on behalf of the members of the Committee on Labor & Public Employment,

KARL RHOADS, Chair



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State of Hawaii House of Representatives The Twenty-fifth Legislature

Record of Votes of the Committee on Labor & Public Employment

Bill/Resolution No.: HB 1550	Committee Referral: LAB, FIN		Date: 12-10-09	
The committee is reconsidering its previous decision on the measure.				
The recommendation is to: □ Pass, unamended (as is) □ Pass, with amendments (HD) □ Hold □ Pass short form bill with HD to recommit for future public hearing (recommit)				
LAB Members	Ayes	Ayes (WR)	Nays	Excused
1. RHOADS, Karl (C)	/			
2. YAMASHITA, Kyle T. (VC)				
3. AQUINO, Henry J.C.				
4. AWANA, Karen Leinani	-			
		CONTRACTOR OF		
5. HANOHANO, Faye P.				
6. KEITH-AGARAN, Gilbert S.C.	<i>L</i>			
7. LEE, Marilyn B.		X9.008 U		
8. NAKASHIMA, Mark M.	,			
				AN AN ADDA
9. SAIKI, Scott K.				-
10. SOUKI, Joseph M.				
		Aug Constant and August		
11. TAKUMI, Roy M.				
12. PINE, Kymberly Marcos				
TOTAL (12)	17			/
The recommendation is: Adopted In Not Adopted Adopted If joint referral, did not support recommendation.				
Vice Chair's or designee's signature:				
Distribution: Original (White) – Committee Duplicate (Yellow) – Chief Clerk's Office Duplicate (Pink) – HMSO				