

STAND. COM. REP. NO.

359

Honolulu, Hawaii

Feb 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.



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 deferred-compensation 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,



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KARL RHOADS, Chair



