
A BILL FOR AN ACT

RELATING TO STATE INCOME TAX.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature finds that existing law does
2 not address the withholding of state income tax from
3 distributions subject to reporting on Internal Revenue Service
4 Form 1099-R. The lack of clear withholding guidelines in
5 statute limits the department of taxation's ability to collect
6 state income taxes efficiently and may result in taxpayers owing
7 large sums at the end of the year, creating unnecessary
8 compliance burdens.

9 The legislature further finds that allowing voluntary
10 withholding of taxable distributions subject to reporting on
11 Internal Revenue Service Form 1099-R, including individual
12 retirement arrangements and tax-deferred annuities, would
13 improve tax administration, reduce taxpayer risk of
14 underpayment, and enhance the State's ability to collect revenue
15 in a timely and predictable manner.

16 Accordingly, the purpose of this Act is to provide for
17 voluntary withholding of state income tax from taxable income



1 subject to reporting as a distribution on Internal Revenue
2 Service Form 1099-R.

3 SECTION 2. Chapter 235, Hawaii Revised Statutes, is
4 amended by adding a new section to be appropriately designated
5 and to read as follows:

6 **"S235- Voluntary withholding of tax for distributions**

7 reported on Form 1099-R. (a) A taxpayer may elect to have any
8 taxable income received by the taxpayer that is subject to
9 reporting as a distribution on Internal Revenue Service Form
10 1099-R be subject to withholding under this chapter at an
11 applicable rate pursuant to this chapter.

12 (b) Income upon which any tax has been withheld at the
13 source pursuant to this section shall be included in the return
14 of the recipient of the income, but any amount of tax withheld
15 shall be credited against the amount of income tax as computed
16 in the return, and if in excess of the tax due for the taxable
17 year shall be refunded as provided in section 235-110.

18 (c) The director of taxation shall adopt rules pursuant to
19 chapter 91 necessary to implement this section, including the
20 procedure for a taxpayer to elect withholding pursuant to
21 subsection (a), and prescribe all necessary forms."



1 SECTION 3. New statutory material is underscored.

2 SECTION 4. This Act, upon its approval, shall apply to
3 taxable years beginning after December 31, 2026.

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INTRODUCED BY: Anna Mercado Jr.



S.B. NO. 2881

Report Title:

DOTAX; Form 1099-R; Distributions; Income Tax; Voluntary Withholding; Rules

Description:

Provides that taxable income subject to reporting as distribution on Internal Revenue Service Form 1099-R may be subject to withholding at the taxpayer's election. Requires the Department of Taxation to adopt rules and prescribe forms. Applicable to taxable years beginning after 12/31/2026.

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