
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 **"§235- 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. An entity making a
12 distribution, upon receiving written notice from a taxpayer of
13 an election under this section, shall deduct and withhold the
14 amount designated by the taxpayer and remit the amount withheld
15 to the department of taxation in the form and manner prescribed
16 by the department; provided that this section shall not apply to
17 an entity if the distributions are not subject to tax under this
18 chapter.

19 (b) Income upon which any tax has been withheld at the
20 source pursuant to this section shall be included in the return
21 of the recipient of the income, but any amount of tax withheld



1 shall be credited against the amount of income tax as computed
2 in the return, and if in excess of the tax due for the taxable
3 year shall be refunded as provided in section 235-110.

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

8 SECTION 3. New statutory material is underscored.

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



S.B. NO. 2881
S.D. 1

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. (SD1)

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not legislation or evidence of legislative intent.*

