

STAND. COM. REP. NO. 2876

Honolulu, Hawaii

MAR 05 2026

RE: S.B. No. 2881  
S.D. 1

Honorable Ronald D. Kouchi  
President of the Senate  
Thirty-Third State Legislature  
Regular Session of 2026  
State of Hawaii

Sir:

Your Committee on Ways and Means, to which was referred S.B. No. 2881 entitled:

"A BILL FOR AN ACT RELATING TO STATE INCOME TAX,"

begs leave to report as follows:

The purpose and intent of this measure is to improve state income tax administration.

More specifically, this measure provides for voluntary withholding of state income tax from taxable income subject to reporting as a distribution on Internal Revenue Service Form 1099-R.

Your Committee received comments on this measure from the Department of Taxation and Tax Foundation of Hawaii.

Your Committee finds that existing law does not address the withholding of state income tax from distributions subject to reporting on Internal Revenue Service Form 1099-R. Your Committee also finds that the lack of clear withholding guidelines in statute limits the Department of Taxation's ability to collect state income taxes efficiently and may result in taxpayers owing large sums at the end of the year, creating unnecessary compliance burdens. Your Committee further finds that allowing voluntary withholding of taxable distributions subject to reporting on Internal Revenue Service Form 1099-R, including individual



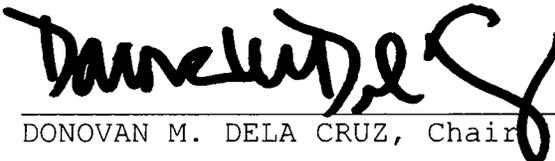
retirement arrangements and tax-deferred annuities, would improve tax administration, reduce taxpayer risk of underpayment, and enhance the State's ability to collect revenue in a timely and predictable manner.

Your Committee has amended this measure by requiring that:

- (1) A taxpayer make an election under this measure by providing written notice of their election to the administrator of their retirement account; and
- (2) Upon receiving written notice from the taxpayer, the administrator withhold and remit the applicable tax to the Department of Taxation.

As affirmed by the record of votes of the members of your Committee on Ways and Means that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 2881, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 2881, S.D. 1, and be placed on the calendar for Third Reading.

Respectfully submitted on  
behalf of the members of the  
Committee on Ways and Means,

  
DONOVAN M. DELA CRUZ, Chair



