

STAND. COM. REP. NO. 497-08

Honolulu, Hawaii

Feb 15, 2008

RE: H.B. No. 2348  
H.D. 1

Honorable Calvin K.Y. Say  
Speaker, House of Representatives  
Twenty-Fourth State Legislature  
Regular Session of 2008  
State of Hawaii

Sir:

Your Committee on Labor & Public Employment, to which was referred H.B. No. 2348 entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose of this bill is to amend Hawaii's tax law to impose the State income tax on rollovers made by state and county employees from qualifying deferred compensation plans to eligible state or county retirement plans.

The Hawaii Government Employees Association testified in opposition to this bill. The Department of Taxation, Employees Retirement System (ERS), and the Tax Foundation of Hawaii commented on this measure.

Currently, employees who roll over or transfer contributions from their deferred compensation plans to purchase ERS 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. When these funds are distributed in the form of employee retirement benefits, they also will not be taxed.

In as much 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 it is rolled over or transferred would appear to be equitable and fair.

HB2348 HD1 HSCR LAB HMS 2008-1991



However, your Committee notes concerns raised by the ERS Board of Trustees that the language in this bill does not address all the situations which may involve rollover or transfers of deferred compensation funds. Accordingly, your Committee has amended this bill by:

- (1) Referencing additional sections of the Internal Revenue Code (IRC) that would be applicable to this measure including sections dealing with the taxability of a beneficiary of an employees' trust and non-taxable trustee-to-trustee transfers to purchase permissive service credit;
- (2) Correcting references to the sections of the IRC currently in the measure;
- (3) Specifying that taxes shall only be applied to the amount of funds rolled over to the ERS if the amount rolled over would have been subject to Hawaii income tax if distributed at retirement rather than being rolled over; and
- (4) Specifying that taxes shall only be applied to the amount of funds transferred to the ERS.

Other technical, nonsubstantive amendments were also made for purposes of 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. 2348, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 2348, 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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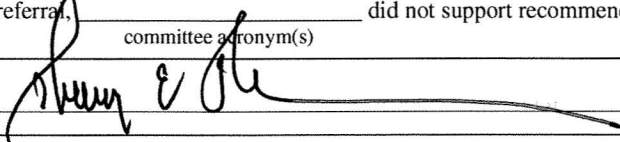
ALEX M. SONSON, Chair



State of Hawaii  
House of Representatives  
The Twenty-fourth Legislature

497-08

**Record of Votes of the Committee on Labor & Public Employment**

Bill/Resolution No.: <b>HB 2348</b>	Committee Referral: <b>LAB, FIN</b>	Date: <b>2/8/08</b>		
<input type="checkbox"/> The committee is reconsidering its previous decision on the measure.				
<b>The recommendation is to:</b> <input type="checkbox"/> Pass, unamended (as is) <input checked="" type="checkbox"/> Pass, with amendments (HD) <input type="checkbox"/> Hold <input type="checkbox"/> Pass short form bill with HD to recommit for future public hearing (recommit)				
LAB Members	Ayes	Ayes (WR)	Nays	Excused
1. SONSON, Alex M. (C)	✓			
2. NAKASONE, Bob (VC)				✓
3. EVANS, Cindy				✓
4. HAR, Sharon E.	✓			
5. LEE, Marilyn B.	✓			
6. LUKE, Sylvia	✓			
7. McKELVEY, Angus L.K.				✓
8. NISHIMOTO, Scott Y.	✓			
9. SOUKI, Joseph M.	✓			
10. TAKAMINE, Dwight Y.		✓		
11. TAKUMI, Roy M.	✓			
12. MEYER, Colleen Rose	✓			
13. PINE, Kymberly Marcos	✓			
<b>TOTAL (13)</b>	<b>9</b>	<b>1</b>		<b>3</b>
<b>The recommendation is:</b> <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted If joint referral, _____ did not support recommendation. committee acronym(s)				
<b>Vice Chair's or designee's signature:</b> _____ 				
<b>Distribution:</b> Original (White) – Committee    Duplicate (Yellow) – Chief Clerk's Office				