

Honolulu, Hawaii

May 1, 2009

RE: H.B. No. 1550
H.D. 2
S.D. 1
C.D. 1

Honorable Calvin K.Y. Say
Speaker, House of Representatives
Twenty-Fifth State Legislature
Regular Session of 2009
State of Hawaii

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fifth State Legislature
Regular Session of 2009
State of Hawaii

Sir and Madam:

Your Committee on Conference on the disagreeing vote of the House of Representatives to the amendments proposed by the Senate in H.B. No. 1550, H.D. 2, S.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

having met, and after full and free discussion, has agreed to recommend and does recommend to the respective Houses the final passage of this bill in an amended form.

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.

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. Since, under current law, pension distributions from the hybrid plan are not subject to income tax,



these rollover or transferred funds 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.

Your Committee on Conference has amended this bill by:

- (1) Further clarifying language to ensure that the state income tax is imposed on distributions from qualified annuity plans and qualified deferred compensation plans by employees who effectively make the distributions to obtain retirement credits under the state employee retirement system;
- (2) Changing its effective date to July 1, 2009; and
- (3) Making technical, nonsubstantive changes for clarity, consistency, and style.

As affirmed by the record of votes of the managers of your Committee on Conference that is attached to this report, your Committee on Conference is in accord with the intent and purpose of H.B. No. 1550, H.D. 2, S.D. 1, as amended herein, and recommends that it pass Final Reading in the form attached hereto as H.B. No. 1550, H.D. 2, S.D. 1, C.D. 1.

Respectfully submitted on behalf
of the managers:

ON THE PART OF THE SENATE

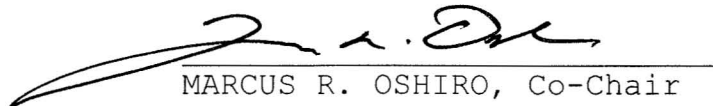
ON THE PART OF THE HOUSE



DONNA MERCADO KIM, Chair



KARL RHOADS, Co-Chair



MARCUS R. OSHIRO, Co-Chair



