

HB 1550

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SUBJECT: INCOME, Taxability of rollovers of state and county employees

BILL NUMBER: HB 1550, HD-2

INTRODUCED BY: House Committee on Finance

BRIEF SUMMARY: Amends HRS section 235-2.4 to add a new paragraph (m) to provide that in administering IRC section 403 (with respect to taxation of employee annuities), section 403(b)(8)(A)(ii) shall not be operative for state income tax purposes when funds are used solely to obtain retirement credits under the state employee retirement system. Also adds a new paragraph (n) to provide that in administering IRC section 457 (with respect to rollover amounts in deferred compensation plans for state and local governments), section 457(e)(ii) shall not be operative for state income tax purposes when funds are used to obtain retirement credits under the state employee retirement system.

EFFECTIVE DATE: July 1, 2020; applicable to tax years beginning after December 31, 2008

STAFF COMMENTS: Under the current law, rollovers made by state and county employees from a deferred compensation plan into eligible state or county retirement plans are not taxed under the federal or state income tax. At retirement, when distributions are made from the state or county retirement plans, the distributions, while taxed for federal income tax purposes, will not be taxed for state income tax purposes.

The adoption of this measure would make such rollovers made by state and county employees to obtain retirement credits taxable for state income tax purposes, it should be clarified that subsequent distributions of these funds shall not be taxable since they were taxed when they were rolled over.

Digested 4/2/09