



DEPARTMENT OF TAXATION
STATE OF HAWAII

January 19, 1978

TAX INFORMATION RELEASE No. 53-77

RE: BENEFITS RECEIVED UNDER INDIVIDUAL RETIREMENT PLANS
AND SELF-EMPLOYED RETIREMENT PLANS

It appears that some tax accountants and advisors are informing their clients that benefits received under individual retirement plans and self-employed retirement plans are pensions and, therefore, not taxable under the Hawaii Income Tax Law.

The Department of Taxation wishes to correct this misinformation by announcing that it considers only pensions for past services as exempt from income tax. This means that only those benefits from plans fully funded by the employer are considered "pension for past services." If the contributions are partly paid by the employee, then the benefits representing the employee's share of contributions would not be for services performed by the employee but would constitute, the purchase of an annuity. The benefits from the employee's contribution would, therefore, be subject to the annuity rules under Hawaii Regs. No. 59-1.

Since contributions to self-employed and individual plans are generally funded entirely by the beneficiary of the plan, these benefits would likewise be considered taxable annuities rather than exempt pensions.

For inheritance tax purposes, the residual proceeds received by a beneficiary on the death of a Participant in a self-employed or individual retirement plan do not qualify for the \$30,000 exemption provided in Section 236-9.1.

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