



DEPARTMENT OF TAXATION

STATE OF HAWAII

March 29, 1979

TAX INFORMATION RELEASE No. 63-79

RE: TAXATION OF AMOUNTS WITHDRAWN FROM INDIVIDUAL  
RETIREMENT ACCOUNTS REPRESENTING "ROLL-OVER"  
FROM EMPLOYEE BENEFIT PLANS

Under current Hawaii income statutes, amounts received by a taxpayer in the form of a pension for past services as an employee, such as lump sum distributions from profit sharing plans in excess of the employee's own contribution are exempt from Hawaii income tax.

The Department has observed that recently there has been an increased number of retired persons, who have elected to defer the excessive Federal income tax on lump sum distributions from profit sharing plans by establishing an Individual Retirement Account into which they "roll-over" their distribution. In order to qualify for Federal tax deferral, the "roll-over" cannot include any of the employee's funds. Accordingly, such "roll-over" is strictly the employer's contributions and earnings thereon which, if not "rolled-over," would be exempt from income tax for Hawaii Income tax purposes.

For Federal income tax purposes, the amounts are fully taxed when the owner of the IRA withdraws amounts from the IRA.

In order to preserve the allowed tax exempt status of the "roll-over," and minimize the tax reporting requirements and the tax supervision and audit cost, the Department of Taxation will follow the guidelines listed below:

If a taxpayer is the owner of an IRA, into which there has been deposited a "roll-over" of a distribution from an employer's benefit plan, all of the amounts withdrawn from such IRA shall be exempt from Hawaii income tax until the aggregate of the exempt withdrawals equal the total of the "roll-over."

If the taxpayer should die prior to withdrawing an amount equal to his "roll-over," then such person, persons, or entity, who succeeds to the IRA, shall continue to exempt their withdrawals from such IRA until the aggregate of the withdrawals by the prior owner or owners of the IRA, together with the withdrawals by such successor in interest equal the total of the "roll-over."

All withdrawals in excess of the "roll-over" will be fully taxable for Hawaii income tax purposes.