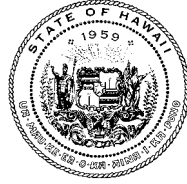


LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510
FAX NO: (808) 587-1560

February 3, 2010

KURT KAWAFUCHI
DIRECTOR OF TAXATION

STANLEY SHIRAKI
DEPUTY DIRECTOR

DEPARTMENT OF TAXATION ANNOUNCEMENT NO. 2010-01

Re: Relating to the Conversion of Eligible Non-Roth IRAs into Roth IRAs

The Tax Increase Prevention and Reconciliation Act of 2005 (P.L. No. 109-222; May 17, 2006):

This Act allows taxpayers to convert eligible non-Roth IRAs to Roth IRAs regardless of income effective for tax years beginning after December 31, 2009. Previously, only taxpayers with federal adjusted gross incomes of \$100,000 or less could exercise this option. For federal income tax purposes, the taxable income resulting from the conversion of an eligible non-Roth IRA to a Roth IRA shall be included in the taxpayer's income over a two-year period with the first taxable year beginning in 2011, unless the taxpayer elects otherwise under Internal Revenue Code (IRC) §408A(d)(3). Eligible non-Roth IRAs are defined in IRC §402(c)(8)(B) and include eligible retirement plans as described in IRC §§403(a), 403(b), 408(a), 408(b), 457(b), and qualified trusts under IRC §401(a).

Conformity to IRC

Pursuant to Act 84, Session Laws of Hawaii 2007, Hawaii conforms to IRC §408A as amended by §512 of the Tax Increase Prevention and Reconciliation Act of 2005 (P.L. No. 109-222; May 17, 2006), relating to the conversion of eligible non-Roth IRAs into Roth IRAs under Hawaii Revised Statutes (HRS) §235-2.4(m). See Tax Announcement No. 2007-04 and the 2007 Digest of Tax Measures. "Adjusted gross income" as used in IRC §408A as operative for Hawaii income tax purposes, means federal adjusted gross income.

Proposed Legislation

In light of the State's economic situation, the Administration plans to provide in its annual conformity bill, Senate Bill 2747 and House Bill 2594, during the 2010 Hawaii Legislative Session that IRC §408A(d)(3)(iii) is inoperative for Hawaii income tax purposes. If the bills are passed, taxpayers will still be able to convert eligible non-Roth IRAs to Roth IRAs regardless of income effective for tax years beginning after December

Department of Taxation Announcement No. 2010-01

February 3, 2010

Page 2 of 2

31, 2009; however, income resulting from such a conversion shall be included in the taxpayer's income in the taxable year of conversion and not over a two-year period.

For more information, please contact the Rules Office at 808-587-1577.

A handwritten signature in black ink, appearing to read "Kurt Kawafuchi". The signature is fluid and cursive, with a large initial "K" and a long, sweeping underline.

KURT KAWAFUCHI
Director of Taxation