

Fiscal Estimate Narratives

DOR 1/24/2005

LRB Number	05-1411/1	Introduction Number	SB-7	Estimate Type	Original
Subject					
Tax deduction for health savings accounts for individuals, based on federal Medicare bill					

Assumptions Used in Arriving at Fiscal Estimate

Under current federal law, certain individuals are allowed a deduction from federal gross income for amounts contributed during the taxable year to a health savings account (HSA), under section 1201 of Public Law 108-173, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MPDIMA). Earnings on the accounts are also tax-deductible and account funds may be withdrawn tax-free when used to pay for routine and preventive medical care.

This bill would allow a state nonrefundable income tax credit for 6.5% of the allowable amount that the individual claims as a federal tax deduction for a contribution to an HSA, 6.5% of the federal tax-exempt earnings relating to an HSA, or both. The amount of the credit allowed for part-year residents and nonresidents is calculated by multiplying the amount of the credit for which the claimant is eligible by the ratio of the individual's Wisconsin adjusted gross income (WAGI) to federal adjusted gross income (FAGI). This bill would first apply to taxable years beginning on January 1, 2005.

The amount of the federal deduction taken by Wisconsin tax filers is calculated based on the Joint Committee on Taxation's (JCT) estimate of the federal fiscal impact of the federal deduction. The FY06 amount of the federal deduction taken by Wisconsin tax filers is estimated at \$69.3 million. The decrease in state tax revenue due to the proposed nonrefundable credit would be \$4.5 million (\$69.3 million x .065).

The Department would incur ongoing processing costs in the form of additional LTE employees of \$3,800, and one-time costs of \$41,800, including \$38,900 for programming changes and \$2,900 for form revisions.

Long-Range Fiscal Implications

The revenue decrease resulting from the proposed nonrefundable credit for FY06-FY13 is shown below:

FY06 \$4.5 million
FY07 \$5.1 million
FY08 \$5.5 million
FY09 \$6.0 million
FY10 \$6.5 million
FY11 \$6.9 million
FY12 \$7.3 million
FY13 \$7.7 million

The staff of the congressional Joint Committee on Taxation (JCT) predicts initial participation in HSAs in 2005 of approximately one million people. Since the Department of Revenue (DOR) based its estimates of Wisconsin's revenue loss from adopting HSAs on JCT's estimates, DOR implicitly assumes that about 20,000 Wisconsin residents would open HSAs in 2005.

Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Subject			
Tax deduction for health savings accounts for individuals, based on federal Medicare bill			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
\$38,900 for programming and \$2,900 for forms and limited-term employees.			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes		\$	
(FTE Position Changes)			
State Operations - Other Costs	3,800		
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category	\$3,800		\$
B. State Costs by Source of Funds			
GPR	3,800		
FED			
PRO/PRS			
SEG/SEG-S			
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
	Increased Rev	Decreased Rev	
GPR Taxes	\$	\$-4,500,000	
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues	\$	\$-4,500,000	
NET ANNUALIZED FISCAL IMPACT			
	State	Local	
NET CHANGE IN COSTS	\$3,800	\$	
NET CHANGE IN REVENUE	\$-4,500,000	\$	
Agency/Prepared By		Authorized Signature	Date
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