



**JIM DOYLE**  
**GOVERNOR**  
**STATE OF WISCONSIN**

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May 27, 2004

TO THE HONORABLE MEMBERS OF THE SENATE:

I am vetoing Senate Bill 568.

Senate Bill 568 adopts the Health Savings Account provisions of federal law for Wisconsin income taxes. This change would be effective January 1, 2005, one year after federal law authorizes these changes. As with Individual Retirement Accounts, contributions to Health Savings Accounts would be deducted in determining Wisconsin adjusted gross income.

I am vetoing the bill for three reasons.

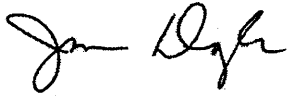
First, Health Savings Accounts are inextricably linked to high deductible medical insurance and therefore could decrease employer sponsored insurance coverage. To qualify for the tax deduction under Health Savings Accounts, annual deductibles must be at least \$1,000 for single coverage and \$2,000 for family coverage, with annual out-of-pocket costs of up to \$5,000 for an individual and \$10,000 for a family. The state tax code should not be used as an incentive for employers to reduce their current level of coverage and offer only policies with high deductibles which will burden middle income families.

Second, Health Savings Accounts are only viable for persons with higher incomes. Of those Wisconsin residents using Medical Savings Accounts (MSA) in 2001 (MSA's are the predecessors to Health Savings Accounts), 60% of all contributions were made by persons with annual adjusted gross income over \$50,000. Only a handful of low-income individuals used these accounts, suggesting that the tax benefits are mostly received by individuals with high incomes. Moreover, given the likely decrease in employer sponsored coverage, this legislation could increase the number of uninsured individuals and families. This problem will be further exacerbated by this legislation because it will encourage higher income and healthy individuals to opt out of insurance pools, leaving behind the most vulnerable populations to face the consequences.

Third, tax cuts should not be adopted as an advance budget commitment without clear and demonstrated economic benefit for the state as a whole. The Legislative Fiscal Bureau estimates the GPR cost of this provision over the next 8 years at

\$38.7 million. At a time of continuing fiscal challenges, it is irresponsible for the Legislature to propose nearly \$40 million in new spending on tax breaks with no demonstrable benefits.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Jim Doyle". The signature is fluid and cursive, with the first name "Jim" and last name "Doyle" clearly distinguishable.

JIM DOYLE  
Governor

# State of Wisconsin



2003 Senate Bill 568

Date of enactment:  
Date of publication\*:

## 2003 WISCONSIN ACT

**AN ACT** to create 71.83 (1) (ce) and subchapter XVI of chapter 71 [precedes 71.98] of the statutes; relating to: adopting federal law as it relates to health savings accounts for state income and franchise tax purposes and providing a penalty.

*The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:*

**SECTION 1.** 71.83 (1) (ce) of the statutes is created to read:

71.83 (1) (ce) *Health savings accounts.* Any person who is liable for a penalty for federal income tax purposes under section 223 (f) (4) of the Internal Revenue Code is liable for a penalty equal to 33 percent of that penalty. The department of revenue shall assess, levy, and collect the penalty under this paragraph as it assesses, levies, and collects taxes under this chapter.

**SECTION 2.** Subchapter XVI of chapter 71 [precedes 71.98] of the statutes is created to read:

### CHAPTER 71 SUBCHAPTER XVI

#### INTERNAL REVENUE CODE UPDATE

**71.98 Internal Revenue Code update.** The following federal laws, to the extent that they apply to the Internal Revenue Code, apply to this chapter:

(1) **HEALTH SAVINGS ACCOUNTS.** For taxable years beginning after December 31, 2004, section 1201 of P.L. 108-173, relating to health savings accounts.

#### **SECTION 3m. Initial applicability.**

(1) **HEALTH SAVINGS ACCOUNTS.** This act first applies to taxable years beginning after December 31, 2004.

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\* Section 991.11, WISCONSIN STATUTES 2001-02 : Effective date of acts. "Every act and every portion of an act enacted by the legislature over the governor's partial veto which does not expressly prescribe the time when it takes effect shall take effect on the day after its date of publication as designated" by the secretary of state [the date of publication may not be more than 10 working days after the date of enactment].