

Fiscal Estimate Narratives

DOR 2/4/2004

LRB Number	03-3993/2	Introduction Number	SB-409	Estimate Type	Original
Subject					
Tax deduction for health savings accounts for individuals, based on federal Medicare bill					

Assumptions Used in Arriving at Fiscal Estimate

This bill would adopt, for state tax purposes, the federal treatment of health savings accounts as created by Public Law 108-173. An HSA is a trust created or organized in the U.S. established exclusively for the purpose of paying the qualified medical expenses of the account beneficiary. Public Law 108-173 creates a deduction from federal gross income for amounts contributed during the taxable year to a health savings account. The maximum deduction allowed cannot exceed the sum of the monthly limitations for months during the taxable year that the individual is an eligible individual. The monthly limitation is equal to the lesser of 1/12 of the annual deductible or 1/12 of \$2,600 if the individual has self-only coverage. The monthly limitation is equal to the lesser of 1/12 of the annual deductible or 1/12 of \$5,150 if the individual has family coverage. The latter amounts are annually indexed for inflation. If the individual has attained age 55 by the end of the taxable year the monthly limitation amount is increased by \$500 in 2004, \$600 in 2005, \$700 in 2006, \$800 in 2007, \$900 in 2008, and \$1,000 for 2009 and thereafter.

The amount of the allowable deduction is reduced by the amount paid to Archer MSAs for the individual during the taxable year. Amounts contributed to an individual's HSA by his or her employer are not deductible because they are already excluded from the individual's gross income. Employers contributing to the HSA of their employees must make comparable contributions to the HSA of each employee or pay a tax equal to 35% of the amount contributed by the employer to the HSAs of employees for the relevant taxable year.

Individuals are eligible for the deduction if they are covered under a high deductible health plan and if the individual is not simultaneously covered under a health plan which is not a high deductible health plan or which provides coverage for any benefit that is covered under the high deductible health plan. A high deductible health plan must have an annual deductible of at least \$1,000 for self-only coverage and \$2,000 for family coverage. The sum of the annual deductible and other annual out-of-pocket expenses required to be paid under the plan for covered benefits may not exceed \$5,000 for self-only coverage and \$10,000 for family coverage.

HSA distributions may not be used to purchase health insurance. Any HSA distributions not used to pay the qualified medical expenses of the account beneficiary are included in federal gross income. The individual must also pay a penalty in the amount of 10% of the distributions not used to pay qualified medical expenses, which would be included in federal gross income. There would be no penalty if the distributions were made after the account beneficiary becomes disabled or dies.

Under current federal law, a taxpayer who itemizes deductions may deduct eligible medical expenses above 7.5% of federal adjusted gross income (FAGI). However, any distributions from an HSA to pay the qualified medical expenses of the account beneficiary may not be treated as qualified medical expenses for the purpose of itemized deductions.

Based on estimates by the staff of the Joint Committee on Taxation (JCT) of the decrease in federal revenue resulting from the HSA provisions of federal Public Law 108-173, this bill would reduce Wisconsin's revenues by \$3.5 million in FY05.

Long-Range Fiscal Implications

The annual cost of adopting the federal tax treatment of HSAs will continue to increase through 2013 as the popularity of the accounts grows. The decrease in state revenues is expected to be \$3.5 million in FY06, \$4.0 million in FY07, \$4.3 million in FY08, \$4.7 million in FY09, \$5.1 million in FY10, \$5.4 million in FY11,

\$5.7 million in FY12, and \$6.0 million in FY13.

Fiscal Estimate Worksheet - 2003 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Subject			
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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
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			
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category		\$	\$
B. State Costs by Source of Funds			
GPR			
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, ets.)			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$-3,500,000
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues		\$	\$-3,500,000
NET ANNUALIZED FISCAL IMPACT			
		State	Local
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$-3,500,000	\$
Agency/Prepared By		Authorized Signature	Date
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