



# State of Wisconsin

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STEPHEN R. MILLER  
CHIEF

January 18, 2005

## MEMORANDUM

**To:** Representative Kaufert

**From:** Marc E. Shovers, Sr. Legislative Attorney, (608) 266-0129

**Subject:** Technical Memorandum to **2005 AB-4** (LRB 05-1262/1)

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We received the attached technical memorandum relating to your bill. This copy is for your information and your file. If you wish to discuss this memorandum or the necessity of revising your bill or preparing an amendment, please contact me.

**MEMORANDUM**

January 14, 2005

**TO:** Mark Shovers  
Legislative Reference Bureau

**FROM:** Dennis Collier  
Department of Revenue

**SUBJECT:** Technical Memorandum on AB-4 Nonrefundable Individual Income Tax Credit;  
Health Savings Account Contributions

Allowing a credit for a health savings account (HSA) at the state level instead of following the federal law creates complexity for the taxpayer. If Wisconsin allows a credit for HSAs instead of adopting the federal tax treatment, a taxpayer will have to add back the amount of the federal deduction to their Wisconsin income, contact their financial institution to determine the earnings on the account and add the earnings to their Wisconsin income, and then compute the credit. Furthermore, since Wisconsin allows a deduction for medical expenses as part of the itemized deduction credit, taxpayers would be able to claim an itemized deduction credit for medical expenses on their state tax return in addition to receiving the HSA credit. Further complications arise for taxpayers who rollover an MSA into an HSA. A rollover from an MSA to an HSA is not taxable for federal purposes, but a Wisconsin taxpayer would be taxed on the entire amount of the rollover at the state level.

Clarification may be needed on the meaning of "federal tax-exempt earnings" in sec. 71.07(6e)(a)1 and 2. It is not clear whether "federal tax-exempt earnings" refer to the amount contributed by an employer that is not included in an employee's wages for federal tax purposes or the amount of tax-exempt earnings from the investment of the account.

The proposed legislation makes no provision for the funding of the costs involved in administering the activities required. If the author wishes to provide funding, appropriation language could be developed and costs allocated in the following manner:

	<u>Chapter 20</u>	<u>Amount</u>	<u>FTE</u>
one-time	s. 20.566 (1) (a)	\$ 41,800	
annual	s. 20.566 (1) (a)	\$ 3,800	

If you have any questions regarding this technical memorandum, please contact Kirstin Nelson at (608) 261-8984; for administrative costs contact Julie Feavel at (608) 267-9892.