



# State of Wisconsin

## LEGISLATIVE REFERENCE BUREAU

1 EAST MAIN, SUITE 200  
P. O. BOX 2037  
MADISON, WI 53701-2037

LEGAL SECTION: (608) 266-3561  
REFERENCE SECTION: (608) 266-0341  
FAX: (608) 264-6948

STEPHEN R. MILLER  
CHIEF

February 14, 2007

## MEMORANDUM

**To:** Senator Darling

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

**Subject:** Technical Memorandum to **2007 SB-018** (LRB 07-1627/1) by **DOR**

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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

February 13, 2007

**TO:** Marc Shovers  
Legislative Reference Bureau

**FROM:** Rebecca Boldt  
Department of Revenue

**SUBJECT:** Technical Memorandum on Senate Bill 18: Health Savings Account Credit

The Department has the following concerns related to the bill:

Allowing a credit for a HSA instead of following federal law and allowing a deduction for such accounts adds unnecessary complexity for the taxpayer. A deduction would mean that the taxpayer would need no further adjustment for Wisconsin. Allowing the credit instead of a deduction means the taxpayer will still have to add back the amount of the federal deduction and add the HSA earnings to Wisconsin income. The bill would create the additional requirement that the taxpayer use the additions to compute the credit. The credit also does not address the fact that distributions from a HSA are not allowed as a medical deduction for federal purposes but are allowed for Wisconsin. Similarly the credit does not address taxpayers who want to rollover an amount from a medical savings account (MSA) to a HSA. The rollover amount becomes taxable for Wisconsin.

There is a question about the meaning of "federal tax-exempt earnings" in sec. 71.07(6f)(a)1 and 2. For federal purposes, an employer may contribute to a HSA for an employee. The amount contributed is not included in the employee's wages for federal tax purposes, but would be included for Wisconsin. In addition, the earnings on a HSA are exempt from federal tax, but taxable for Wisconsin. It is not clear if "federal tax-exempt earnings" means the amount not included as wages for federal tax purposes or the amount of tax-exempt earnings from the investment of the account. This should be clarified.

If you have any questions regarding this technical memorandum, please contact Brad Caruth at (608) 261-8984 or [bradley.caruth@dor.state.wi.us](mailto:bradley.caruth@dor.state.wi.us).

cc: Senator Darling