
2010 HEALTH SAVINGS ACCOUNTS

Fact Sheet

The federal Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Public Law 108-173) provided for the establishment of health savings accounts.

A health savings account (HSA) is a special account owned by an individual and used to pay for medical expenses. Health savings accounts are used in conjunction with a high deductible health plan.

Wisconsin does not follow the provisions of Public Law 108-173 relating to health savings accounts.

FEDERAL TAX TREATMENT OF HSAs

- Eligible individuals may claim a deduction on their federal income tax returns for contributions to the HSA. If the contribution is made by an employer (or pre-tax through an employer's cafeteria plan), the amount of the contribution is excluded from the employee's wages. The maximum contribution for 2010 is \$3,050 for individuals and \$6,150 for families. A \$1,000 "catch-up" contribution is allowed for individuals age 55 and older.
- Excess contributions must be withdrawn or are subject to a six percent excise tax.
- Earnings on the account are not taxable to the individual.
- Distributions from the HSA are tax-free if used for qualified medical expenses. The medical expenses paid from the HSA distribution can not be used as an itemized deduction on Schedule A.
- Distributions not used for qualified medical expenses must be included in income and are subject to a 10 percent additional tax. The 10 percent additional tax does not apply to distributions taken after the individual dies, becomes disabled, or is age 65 or older.
- Distributions from an Archer medical savings account may be rolled over to an HSA.

Further information on the federal treatment of HSAs can be found in federal Publication 969, *Health Savings Accounts and Other Tax-Favored Health Plans*. This publication is available at www.irs.gov or by calling 1-800-829-3676.

WISCONSIN TREATMENT OF HSAs

- A deduction is not allowed for contributions to an HSA, whether the contributions were made by the individual or the employer or pre-tax through the employer's cafeteria plan. The amount deducted by an individual or excluded from an employee's income for federal purposes must be included in Wisconsin income.
- Earnings on the HSA account are taxable to the individual.
- Amounts distributed from the HSA are not taxable, regardless of whether or not the amount is used to pay medical expenses. No penalty applies.
- Medical expenses paid with a distribution from the HSA are allowed to be used in the computation of the Wisconsin itemized deduction credit.
- A rollover from an Archer medical savings account to a HSA is a taxable transaction. The rollover amount must be included in income. The individual is subject to a penalty equal to 5 percent of the taxable amount.
- Individuals must file Wisconsin Schedule I to adjust for the differences between the Wisconsin and federal tax treatment of HSAs.

For further information on the Wisconsin treatment of HSAs, contact any [Department of Revenue office](#) or our Customer Service Bureau at (608)266-2772.