

SENATE FILE 314

WAYS & MEANS

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Passed Senate, Date \_\_\_\_\_ Passed House, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

**A BILL FOR**

1 An Act relating to contributions made to medical savings accounts  
2 for state income tax purposes and including effective and  
3 retroactive applicability date provisions.

4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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SC 314  
WAYS & MEANS

1 Section 1. Section 422.7, Code 2005, is amended by adding  
2 the following new subsections:

3 NEW SUBSECTION. 44. If the individual was an account  
4 holder of an Archer medical savings account established  
5 pursuant to section 220 of the Internal Revenue Code or an  
6 account beneficiary of a health savings account established  
7 pursuant to section 223 of the Internal Revenue Code, the  
8 following adjustments shall be made:

9 a. Add, to the extent excluded, contributions to the  
10 account.

11 b. Subtract, to the extent included, distributions from  
12 the account not used for qualified medical expenses, as  
13 defined in section 220 or 223 of the Internal Revenue Code, as  
14 appropriate.

15 NEW SUBSECTION. 45. If the taxpayer is an account holder  
16 of a medical savings account pursuant to chapter 509C at any  
17 time during the tax year, the following adjustments shall be  
18 made:

19 a. Subtract, to the extent included, the following:

20 (1) Contributions made in cash equal to the aggregate  
21 amount of the eligible monthly contribution amounts as  
22 computed pursuant to section 509C.2, subsection 2.

23 (2) Interest and earnings on moneys in the medical savings  
24 account.

25 b. Add, to the extent not included, the amount of  
26 distributions which are not used to pay qualified medical  
27 expenses, as defined in section 509C.1, but only if the amount  
28 was previously excluded in determining net income under rules  
29 adopted by the department.

30 Sec. 2. NEW SECTION. 509C.1 DEFINITIONS.

31 For purposes of this chapter, unless the context otherwise  
32 requires:

33 1. "Account holder" means the individual on whose behalf a  
34 medical savings account is established.

35 2. "Cut-off year" means the later of the calendar year

1 during which at least ten percent of state employees have  
2 agreed with the department of administrative services to have  
3 self-only or family coverage under a high deductible health  
4 plan for the 2010 calendar year.

5 3. "High deductible health plan" means a high deductible  
6 health plan as defined in section 220 or 223 of the Internal  
7 Revenue Code.

8 4. "Medical savings account" means an Archer medical  
9 savings account as defined in section 220 of the Internal  
10 Revenue Code or a health savings account as defined in section  
11 223 of the Internal Revenue Code.

12 5. "Permitted insurance" means the same as defined in  
13 section 220 or 223 of the Internal Revenue Code.

14 6. "Qualified medical expenses" means qualified medical  
15 expenses as defined in section 220 or 223 of the Internal  
16 Revenue Code, as appropriate.

17 Sec. 3. NEW SECTION. 509C.2 ELIGIBILITY -- TAX  
18 DEDUCTION.

19 1. An individual is eligible to be an account holder of a  
20 medical savings account into which contributions are  
21 deductible for state individual income tax under chapter 422,  
22 division II, if all of the following apply:

23 a. The individual was a state employee during the time  
24 contributions are made to the account.

25 b. The individual entered into an agreement with the  
26 department of administrative services prior to the cut-off  
27 period not to be covered by any state health plan or health  
28 plan of the individual's spouse, except for permitted  
29 insurance.

30 c. The individual established a medical savings account.

31 2. The amount deductible by a taxpayer who is an account  
32 holder under subsection 1 is the amount deducted pursuant to  
33 section 220 or 223 of the Internal Revenue Code for federal  
34 income tax purposes.

35 Sec. 4. NEW SECTION. 509C.3 PILOT PROGRAM.

1 1. The department of administrative services shall  
2 establish a pilot program to allow state employees to  
3 establish an Archer medical savings account under section 220  
4 of the Internal Revenue Code or a health savings account under  
5 section 223 of the Internal Revenue Code. The goal of the  
6 pilot program is to enroll ten percent of the state employees.

7 2. To establish and as part of the pilot program, the  
8 department shall do all of the following:

9 a. Provide notice to each full-time state employee of the  
10 availability and advantages of the program.

11 b. Enter into agreements to enroll state employees in the  
12 program.

13 c. Offer assistance to enrolled employees in establishing  
14 medical savings accounts.

15 d. At least annually, conduct a random survey of state  
16 employees concerning medical savings accounts.

17 e. Report annually to the general assembly and the  
18 legislative services agency on the monetary effects of the  
19 program.

20 Sec. 5. EFFECTIVE AND APPLICABILITY DATE. This Act, being  
21 deemed of immediate importance, takes effect upon enactment  
22 and applies retroactively to January 1, 2005, for tax years  
23 beginning on or after that date.

24 EXPLANATION

25 This bill does not allow contributions to Archer medical  
26 savings accounts or health savings accounts to be deducted for  
27 state income tax purposes as the contributions are for federal  
28 income tax purposes. However, a pilot program is established  
29 for state employees to authorize them to set up these health  
30 savings accounts in lieu of being covered by state health  
31 plans. These state employees are allowed a deduction for  
32 contributions made to the health savings account for state  
33 income tax purposes just like the deduction for these  
34 contributions under the federal income tax.

35 The bill takes effect upon enactment and applies

1 retroactively to January 1, 2005, for tax years beginning on  
2 or after that date.

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