

JAN 19 2007

S.B. NO. 201

A BILL FOR AN ACT

RELATING TO MEDICAL SAVINGS ACCOUNTS.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. Chapter 235, Hawaii Revised Statutes, is
2 amended by adding a new part to be appropriately designated and
3 to read as follows:

4 **"PART MEDICAL SAVINGS ACCOUNTS**

5 **"§235-A Medical Savings Accounts; Establishment.**

6 This Act shall be known and may be cited as the "Medical
7 Savings Account Act."

8 **§235-B Establishment of Accounts.** (a) After December 31,
9 2006, an employer may offer to establish medical savings
10 accounts.

11 (b) An employee on whose behalf a medical savings account
12 has not been established by his or her employer may establish
13 such an account on his or her own behalf.

14 (c) Each year an employer may contribute to an employee's
15 medical savings account an amount that does not exceed three
16 thousand dollars.



1 (d) If an employer establishes a medical savings account
2 for an employee but contributes less than the maximum set forth
3 in subsection (c), the employee may contribute the difference in
4 accordance with the provisions of section §235-C.

5 **§235-C Employee contributions; pretax.** (a) All employee
6 contributions to medical savings accounts shall be made on a
7 pretax basis. Such contributions are subject to the same
8 limitations as employer contributions.

9 (b) An employee shall elect to make contributions to his
10 or her medical savings account by signing a written election.
11 Such election is to be in the form prescribed by the director of
12 the department of taxation and is to be signed prior to the date
13 the employer withholds the first contribution.

14 **§235-D Employer contributions; Tax Deduction.** (a)
15 Employer contributions to employee medical savings accounts
16 shall constitute a deduction from the employer's state taxable
17 income.

18 **§235-E Distributions.** (a) An account holder shall submit
19 documentation of eligible medical expenses paid during the tax
20 year to the account administrator, and the account administrator
21 shall reimburse the account holder for such expenses.



1 (b) Moneys may be distributed from a medical savings
2 account only for the purpose of:

3 (1) Reimbursing the eligible medical expenses of the
4 account holder or his or her spouse or dependent
5 child;

6 (2) Cashing out the balance in the account of a
7 deceased account holder; or

8 (3) Cashing out an account holder's prior years'
9 balance.

10 (c) An account holder may withdraw the balance in his or
11 her account for any reason if such withdrawal occurs after the
12 end of the year in which the moneys were contributed; however,
13 such distributed moneys are subject to state income tax pursuant
14 to section §235-G.

15 **§235-F Restrictions.** (a) An account holder shall not use
16 account moneys to fund a policy that covers the deductible for a
17 qualified higher deductible health plan.

18 **§235-G Taxation of account moneys.** (a) Account moneys,
19 including interest income, are not to be taxed as Hawaii
20 adjusted gross income if they are:

21 (1) In an employee's medical savings account; or

22 (2) Withdrawn to pay eligible medical expenses.



1 (b) Account moneys are to be taxed as Hawaii adjusted
2 gross income when such moneys are withdrawn for purposes other
3 than the payment of eligible medical expenses.

4 (c) Upon the death of the account holder, the account
5 principal, as well as any accumulated interest, is to be
6 distributed to and taxed as part of the decedent's estate, as
7 provided by law.

8 **§235-H Portability.** (a) An account holder is the owner
9 of his or her medical savings account and may change the account
10 administrator of such an account upon leaving the employ of his
11 or her employer."

12 SECTION 2. In codifying the new sections added by section
13 1 of this Act, the revisor of statutes shall substitute
14 appropriate section numbers for the letters used in designating
15 the new sections in this Act.

16 SECTION 3. If any provision of this Act, or the
17 application thereof to any person or circumstance is held
18 invalid, the invalidity does not affect other provisions or
19 applications of the Act, which can be given effect without the
20 invalid provision or application, and to this end the provisions
21 of this Act are severable.

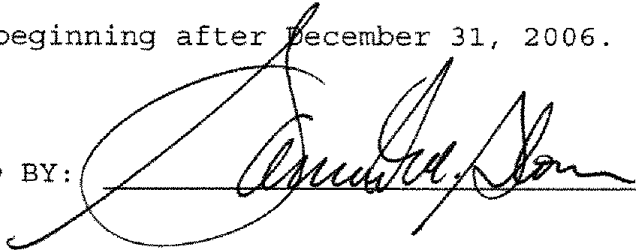


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1 SECTION 4. This Act shall take effect on July 1, 2007 and
2 shall apply to taxable years beginning after December 31, 2006.

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INTRODUCED BY:



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Report Title:

Medical Savings Accounts

Description:

Establishes medical savings accounts.

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