
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 account act; establishment.** This
6 Act shall be known and may be cited as the "Medical Savings
7 Account Act".

8 **§235-B Establishment of accounts.** (a) After December 31,
9 2011, 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 the employee's employer may
13 establish a medical savings account on the employee's own
14 behalf.

15 (c) Each year an employer may contribute to an employee's
16 medical savings account an amount that shall not exceed \$3,000.

17 (d) If an employer establishes a medical savings account
18 for an employee but contributes less than the maximum set forth



1 in subsection (c), the employee may contribute the difference in
2 accordance with section 235-C.

3 **§235-C Employee contributions; pretax.** (a) All employee
4 contributions to medical savings accounts shall be made on a
5 pretax basis and are subject to the same limitations as employer
6 contributions.

7 (b) An employee shall elect to make contributions to a
8 medical savings account by signing a written election. The
9 election shall be in the form prescribed by the director of
10 taxation and shall be signed prior to the date the employer
11 withholds the first contribution.

12 **§235-D Employer contributions; tax deduction.** Employer
13 contributions to employee medical savings accounts shall
14 constitute a deduction from the employer's state taxable income.

15 **§235-E Distributions.** (a) A medical savings account
16 holder shall submit documentation of eligible medical expenses
17 paid during the tax year to the account administrator, and the
18 account administrator shall reimburse the account holder for
19 related expenses.

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



- 1 (1) Reimbursing the eligible medical expenses of the
- 2 account holder or the account holder's spouse or
- 3 dependent child;
- 4 (2) Cashing out the balance in the medical savings account
- 5 of a deceased account holder; or
- 6 (3) Cashing out an account holder's prior year's balance.
- 7 (c) An account holder may withdraw the balance in the
- 8 account holder's medical savings account for any reason if the
- 9 withdrawal occurs after the end of the year in which the moneys
- 10 were contributed; however, the distributed moneys shall be
- 11 subject to state income tax pursuant to section 235-G.

12 **§235-F Restrictions.** An account holder shall not use

13 medical savings account moneys to fund a policy that covers the

14 deductible for a qualified higher deductible health plan.

15 **§235-G Taxation of account moneys.** (a) Account moneys,

16 including interest income, shall not be included as Hawaii

17 adjusted gross income if they are:

- 18 (1) In an employee's medical savings account; or
- 19 (2) Withdrawn to pay for eligible medical expenses.
- 20 (b) Medical savings account moneys shall be included as
- 21 Hawaii adjusted gross income when those moneys are withdrawn for
- 22 purposes other than the payment of eligible medical expenses.



1 (c) Upon the death of the account holder, the medical
2 savings account principal and any accumulated interest shall be
3 distributed to and taxed as part of the decedent's estate, as
4 provided by law.

5 **§235-H Portability.** An account holder shall be considered
6 the owner of the medical savings account and may change the
7 account administrator upon leaving the employ of the account
8 holder's employer."

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

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

19 SECTION 4. This Act shall take effect on July 1, 2050;
20 provided that this Act shall apply to taxable years beginning
21 after December 31, 2011.

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Report Title:
Medical Savings Accounts

Description:
Establishes medical savings accounts. Effective 7/1/2050.
(SD1)

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