

2. Adopt the federal rules applicable to the HSA trust itself in order for the trust to be exempt from tax for California purposes.
3. Modify the federal disqualified distribution tax applicable to HSAs to be 2½ percent instead of the federal rate of 10 percent. Consistent with general conformity policy in other areas, the federal 6 percent excise tax on excess contributions and the federal estate tax provisions would be inapplicable.
4. Allow an exclusion from an employee's gross income for the amount of any contributions to an HSA (including salary reduction contributions made through a cafeteria plan) made on the employee's behalf by their employer.
5. Allow direct rollovers from medical savings accounts to HSAs, as well as between HSAs, without penalty.
6. Adopt the federal \$50 penalty for failure to make required reports by the HSA trustee or other person providing an individual with a High Deductible Plan.
7. Allow certain amounts in Health Spending Arrangements or Reimbursement Arrangements to be distributed from the Health Spending Arrangements or Reimbursement Arrangements and contributed through a direct transfer to an HSA without violating the otherwise applicable requirements for such arrangements.
8. Use the Consumer Price Index for a calendar year as of the close of the 12-month period ending on March 31 of the calendar year for the purpose of making cost-of-living adjustments for the HSA dollar amounts that are indexed for inflation (i.e., the contribution limits and the High Deductible Plan requirements).
9. Allow individuals who become covered under a High Deductible Plan in a month other than January to make the full deductible HSA contribution for the year rather than being required to prorate the deduction based on the number of months the individual was enrolled in a High Deductible Plan.
10. Allow an exception to the comparable contribution requirements to allow employers to make larger HSA contributions for non-highly-compensated employees than for highly-compensated employees. For example, an employer is permitted to make a \$1,000 contribution to the HSA of each non-highly compensated employee for a year without making contributions to the HSA of each highly compensated employee.
11. Allow a one-time contribution to an HSA of amounts distributed from an IRA. The contribution must be made in a direct trustee-to-trustee transfer. Amounts distributed from an IRA under these rules are excludible from income to the extent the distribution would otherwise be includible in income. In addition, such distributions are not subject to the 2½ percent additional tax on early distributions from an IRA.

TECHNICAL CONSIDERATIONS

Subdivision (c) of Section 17072, needs to be amended where the term "attorney's" appears, as it should be "attorneys" to correspond to the term used under the Internal Revenue Code Section 62(a)(21). Amendment 1 is provided.

FISCAL IMPACT

This bill would impact the department's printing, processing, and programming costs. As the bill continues to move through the legislative process, costs will be identified and an appropriation will be requested, if necessary.

ECONOMIC IMPACT

Revenue Estimate

Estimated Revenue Impact of AB 2576 As Amended April 22, 2014 Assumed Enactment After June 30, 2014 (\$ in Millions)		
2014-15	2015-16	2016-17
- \$80	- \$55	- \$55

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill.

SUPPORT/OPPOSITION¹

Support: California Association for Health Services at Home (CAHSAH), California Association of Health Underwriters (CAHU), California Association of Joint Powers Authorities (CAJPA), California Chamber of Commerce, California Chapter of the American College of Emergency Physicians, and California Taxpayers Association.

Opposition: American Federation of State, County and Municipal Employees (AFSCME), AFL-CIO, California Labor Federation, California Tax Reform, and Health Access California.

LEGISLATIVE STAFF CONTACT

Jane Raboy
Legislative Analyst, FTB
(916) 845-5718
jane.raboy@ftb.ca.gov

Mandy Hayes
Revenue Manager, FTB
(916) 845-5125
mandy.hayes@ftb.ca.gov

Jahna Carlson
Asst. Legislative Director, FTB
(916) 845-5683
jahna.carlson@ftb.ca.gov

¹ As noted in the Assembly Committee on Revenue and Taxation bill analysis as introduced February 21, 2014.

Analyst	Jane Raboy
Telephone #	(916) 845-5718
Attorney	Bruce Langston

FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 2576
AS AMENDED APRIL 22, 2014

AMENDMENT 1

On page 2, line 10, strikeout "attorney's", and insert:

attorneys