

HOUSE RESEARCH

Bill Summary

FILE NUMBER: H.F. 1742

DATE: March 16, 2004

Version: As introduced

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Subject: Federal conformity on health savings accounts

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Overview

Conforms to the portion of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 that created Health Savings Accounts (HSAs). Allows individuals with high-deductible health plan coverage an income tax deduction for contributions to HSAs, and exempts HSA distributions used for medical expenses from income tax.

Section

- 1** **Net income.** Conforms to federal changes to the definition of net income relating to health savings accounts (HSAs), included in the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. Allows the deduction of contributions to a health savings account for individuals with high-deductible medical health plan coverage. The maximum deduction is \$2,250 for individuals with self-only coverage and \$4,500 for individuals with family coverage. The maximum deduction is \$500 higher for individuals age 55 or older, and is increased by an additional \$100 per year until tax year 2009, when it will be \$1,000 higher than the maximum deduction for individuals under age 55. "High-deductible" plan is defined as having an annual deductible of at least \$1,000 for self-only coverage and \$2,000 for family coverage, and having a maximum combined deductible and out-of-pocket expense requirement of at most \$5,000 for self-only coverage and \$10,000 for family coverage.

Earnings on amounts contributed to HSAs are tax-exempt. Distributions from HSAs are tax-exempt if used for medical expenses.

Section

Effective beginning in tax year 2004.

- 2** **Income tax definitions.** Updates the income tax chapter Internal Revenue Code reference to federal provisions relating to HSAs. The effect of this would be to allow the exclusion of HSA contributions and distributions used for medical expenses from Minnesota's alternative minimum tax, and to allow the deduction of HSA contributions from household income used to determine eligibility for the dependent care credit, and K-12 education credit. Distributions from HSAs would be included in household income.