HOUSE RESEARCH
Bill Summary

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Subject: Health savings accounts

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Overview

A health savings account (HSA), when paired with a high deductible health plan (HDHP), forms a type of consumer driven health plan. A person insured by an HDHP, as individual coverage or employer group coverage, may use an HSA to pay part of the deductible and other cost-sharing under the HDHP and medical expenses not covered by the HDHP, including dental care, vision care, long-term care, and cosmetic surgery. The insured person, the employer, or both, may deposit funds into the insured person's HSA up to an annual limit. The funds in the HSA belong to the insured person, and money not spent is carried over to future years, including into retirement. Funds in the HSA may be invested to earn interest, dividends, and capital gains.

Under federal tax law, contributions to the HSA are tax-free (not just tax-deferred), earnings of the HSA are tax-free, and withdrawals to pay medical expenses are tax-free. This bill would give health savings accounts the same tax advantages under state tax law that they have under federal tax law.

<u>Section</u>

1 **Net income.** Provides that the effective date of Minnesota's conformity with the federal income tax treatment of HSAs, accomplished under section 2, would be retroactive to January 1, 2004.

2 **Internal revenue code.** Conforms Minnesota's income tax treatment of HSAs to the federal income tax laws.

Section