Overview

Allows a nonrefundable income tax credit equal to 7.5 percent of medical expenses and eliminates the separate deduction for self-employed health insurance premiums.

Background Information. For tax year 1999, federal law allows self-employed individuals to deduct 60 percent of premiums in calculating federal adjusted gross income. (This percentage increases to 70 percent in 2002 and 100 percent in 2003.) Taxpayers who claim itemized deductions may deduct medical expenses, including the balance of self-employed health insurance premiums, to the extent the total exceeds 7.5 percent of the taxpayer's adjusted gross income. Deductible expenses include health insurance premiums, medical and dental care, prescription drugs, necessary transportation, and medical aids such as eyeglasses, hearing aids, crutches, and wheelchairs. These same expenses (without regard to the "floor" of adjusted gross income) would qualify for the credit proposed in HF 787. About 100,000 taxpayers claimed this deduction in 1996, the last year for which data is available.

Current Minnesota law allows the self-employed to subtract health insurance premiums that were not subtracted or claimed as an itemized deduction at the federal level.

1 Subtractions from taxable income. Strikes the subtraction for health insurance premiums for self-employed taxpayers. (For tax years 1999 through 2001, this deduction applies to 40 percent of premiums; the balance are deductible under federal law and this deduction flows through to Minnesota. By tax year 2003, the premiums are fully deductible under federal law.) These premiums qualify as a medical expense in determining the credit under section 2.

2 Medical expense credit. Allows a nonrefundable income tax credit equal to 7.5 percent of medical expenses. Defines medical expenses as expenses that qualify for a federal itemized deduction, less the long-term care insurance tax credit. The credit is reduced by the amount of...
medical expenses that are deducted in determining federal taxable income. As introduced, the credit was also reduced by MinnesotaCare premiums. The author's amendment deleted this reduction.

3 Effective date. Effective beginning in tax year 1999.