

HOUSE RESEARCH

Bill Summary

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Authors: Lenczewski and Brod
Subject: Changes to 2008 tax law; section 125 health insurance credit and MOE suspension
Analyst: Nina Manzi (651 296-5204) and Pat Dalton (651 296-7434)

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Overview

This bill makes changes to the 2008 tax law as specified in a letter sent by House and Senate leadership to the Governor following the adjournment of the 2008 legislative session. It replaces two employer credits intended to encourage employers to provide section 125 plans for health care a credit for certain individuals participating in section 125 plans. It also repeals a provision that suspends all state “maintenance of effort” and matching fund requirements for counties while levy limits are in effect.

Section

- 1 Health insurance premiums credit.** Allows a nonrefundable credit equal to 20 percent of health insurance premiums paid during the first 12 months an individual participates in a section 125 plan for health care. Limits the credit to individuals who have not had coverage under any health care plan for at least one year, and further limits the credit based on the individual’s household income, tied to minimum and maximum percentages of the federal poverty guidelines as adjusted for family size. The definition of “household income” used is the same as for the property tax refund, the dependent care credit, and the K-12 education credit; it is a broad income measure that includes most forms of taxable and nontaxable income.

Federal poverty guidelines for 2009 have not yet been released; under the 2008 guidelines the credit would have been limited to the income ranges shown in the table.

Household type	Household income at least	But less than
Single person, no dependents	\$20,800	\$28,600

Married couple, no dependents	\$28,000	\$38,500
Single parent, 1 dependent	\$38,500	\$42,000
Married couple, 2 dependents	\$58,300	\$63,600

Requires employers who offer section 125 plans for health care to provide each participating employee with a statement showing the amount of premiums paid during the year for the employee's use in claiming the credit.

Background. "Section 125" refers to a section of the Internal Revenue Code authorizing cafeteria plans. Employees of businesses that provide section 125 plans for health care may choose to contribute amounts to the plans on a pre-tax basis, and use the amounts contributed to pay health insurance premiums. Employers bear the cost of administering the plans, but need not make contributions for use in payment of premiums.

Effective for tax year 2009, based on premiums paid starting in January 2009.

- 2 Repealer.** Paragraph (a) repeals two health insurance credit enacted in 2008, intended to increase use of section 125 plans.

Paragraph (b) retroactively repeals a provision suspending all maintenance of effort (MOE) and matching fund requirements imposed on counties by the state while levy limits are in effect. Levy limits were enacted last year and are currently in effect for 2009 – 2011 county budget years. The requirements specifically listed in the law affect library, health and human services, and corrections spending. Counties were informed of the legislative leadership's intent to repeal this provision prior to setting their Pay 2009 property tax levies.