

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Health Savings Accounts

February 3, 2004

| | Yes | No |
|---|-----|----|
| Separate Official Fiscal Note Requested | | |
| Fiscal Impact | | |
| DOR Administrative Costs/Savings | | |

Department of Revenue
Analysis of S.F. 1602 (LeClair)

| | <u>Revenue Gain or (Loss)</u> | | | |
|--------------|-------------------------------|------------------|------------------|------------------|
| | <u>F.Y. 2004</u> | <u>F.Y. 2005</u> | <u>F.Y. 2006</u> | <u>F.Y. 2007</u> |
| | | (000's) | | |
| General Fund | \$0 | (\$3,200) | (\$3,200) | (\$3,600) |

Effective beginning with tax year 2004.

EXPLANATION OF THE BILL

Under the proposal, Minnesota would adopt the federal tax treatment of health savings accounts as provided for in the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, Public Law 108-173.

Under the new federal law, an eligible individual with a high-deductible health plan is allowed to make contributions to a health savings account. An employer may also make contributions to the individual's account. The individual is allowed a deduction from gross income for contributions to the account, interest on the account accumulates tax free, and withdrawals from the account are not taxable if they are used for medical expenses.

A health plan qualifies as a high-deductible plan if the annual deductible is at least \$1,000 for self-only coverage (\$2,000 for family coverage) and the sum of the annual deductible and other annual out-of-pocket expenses does not exceed \$5,000 for self-only coverage (\$10,000 for family coverage). The maximum annual deduction is the lesser of the annual deductible or \$2,250 for self-only coverage (\$4,500 for family coverage). The maximum deduction is prorated on a monthly basis if the individual qualifies for only part of the year. For a person age 55 or older, the maximum deductible contribution is increased by \$500 for tax year 2004, and the \$500 is increased by \$100 each year until it reaches \$1,000 in 2009. The maximum deduction is reduced by the amount of any employer contributions to the health savings account which are excluded from employee's income.

REVENUE ANALYSIS DETAIL

- The estimates are based on the estimates for the federal bill prepared by the Joint Committee on Taxation, released on November 21, 2003.
- The estimates were apportioned to Minnesota based on Minnesota's portion of federal adjusted gross income, which is 1.9%. Appropriate federal and state marginal rates were applied.
- The estimates were converted from federal to state fiscal years. Because the state adoption of this provision could not occur until the 2004 legislative session, it was further assumed that none of the impact for tax year 2004 would occur before FY 2005.

Source: Minnesota Department of Revenue
Tax Research Division
<http://www.taxes.state.mn.us/polic.html#analyses>