

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Health Savings Accounts

March 7, 2005

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

Department of Revenue
Analysis of S.F. 99 (LeClair)/ H.F. 9 (Wilkin)

	<u>Fund Impact</u>			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
	(000's)			
General Fund	(\$5,200)	(\$3,000)	(\$3,300)	(\$3,700)

Effective beginning with tax year 2004.

EXPLANATION OF THE BILL

The bill would adopt the provisions of the federally-enacted health savings accounts for purposes of the Minnesota individual income tax.

Tax-free health savings accounts were enacted in Section 1201 of the federal Medicare Prescription Drug, Improvement, and Modernization Act of 2003, Public Law 108-173. 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. An employer contribution to the account is excluded from the employee's income, 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 information in the federal report, *Estimates of Federal Tax Expenditures for Fiscal Years 2005-2009*, by the Staff of the Joint Committee on Taxation. The report was published on January 12, 2005.
- The federal 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. The estimate for fiscal year 2006 includes the impact of the retroactive effective date to tax year 2004.

Number of Taxpayers: An estimated 20,000 to 30,000 taxpayers would be affected in the initial years, and the number would likely increase in subsequent years.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy