

IN THE HOUSE OF REPRESENTATIVES

HOUSE BILL NO. 595, As Amended in the Senate

BY REVENUE AND TAXATION COMMITTEE

AN ACT

RELATING TO INCOME TAXES; AMENDING SECTION 63-3022K, IDAHO CODE, TO REVISE PROVISIONS REGARDING TAXATION AND CONTRIBUTIONS TO MEDICAL SAVINGS ACCOUNTS FOR STATE INCOME TAX PURPOSES; DECLARING AN EMERGENCY AND PROVIDING RETROACTIVE APPLICATION.

Be It Enacted by the Legislature of the State of Idaho:

SECTION 1. That Section 63-3022K, Idaho Code, be, and the same is hereby amended to read as follows:

63-3022K. MEDICAL SAVINGS ACCOUNT. (1) For taxable years commencing on and after January 1, 1995, annual contributions to a medical savings account not exceeding two thousand dollars (\$2,000) for the account holder and interest earned on a medical savings account shall be deducted from taxable income by the account holder, if such amount has not been previously deducted or excluded in arriving at taxable income. For married individuals the maximum deduction shall be computed separately for each individual. Contributions to the account shall not exceed the amount deductible under this section.

(2) For taxable years beginning on or after January 1, 2014, the annual contributions to a medical savings account shall be limited to ten thousand dollars (\$10,000). Both interest earned and all contributions to medical savings accounts shall be deducted from taxable income by the account holder, if such amount has not been previously deducted or excluded in arriving at taxable income.

(3) For the purpose of this section, the following terms have the following meanings unless the context clearly denotes otherwise:

(a) "Account holder" means an individual, in the case of married individuals each spouse, including a self-employed person, on whose behalf the medical savings account is established.

(b) "Dependent" means a person for whom a deduction is permitted under section 151(b) or (c) of the Internal Revenue Code if a deduction for the person is claimed for that person on the account holder's Idaho income tax return.

(c) "Dependent child" means a child or grandchild of the account holder who is not a dependent if the account holder actually pays the eligible medical expenses of the child or grandchild and the child or grandchild is any of the following:

(i) Under twenty-one (21) years of age, or enrolled as a full-time student at an accredited college or university.

(ii) Legally entitled to the provision of proper or necessary subsistence, education, medical care or other care necessary for his or her health, guidance or well-being and not otherwise emanci-

1 pated, self-supporting, married or a member of the armed forces of  
2 the United States.

3 (iii) Mentally or physically incapacitated to the extent that he  
4 or she is not self-sufficient.

5 (d) "Depository" means a state or national bank, savings and loan asso-  
6 ciation, credit union or trust company authorized to act as a fiduciary  
7 or an insurance administrator or insurance company authorized to do  
8 business in this state, a broker or investment advisor regulated by the  
9 department of finance, a broker or insurance agent regulated by the  
10 department of insurance or a health maintenance organization, fraternal  
11 benefit society, hospital and professional service corporation as  
12 defined in section 41-3403, Idaho Code, or nonprofit mutual insurer  
13 regulated under title 41, Idaho Code.

14 (e) "Eligible medical expense" means an expense paid by the taxpayer  
15 for medical care described in section 213(d) of the Internal Revenue  
16 Code, and long-term care expenses of the account holder and the spouse,  
17 dependents and dependent children of the account holder.

18 (f) "Long-term care expenses" means expenses incurred in providing  
19 custodial care in a nursing facility as defined in section 39-1301,  
20 Idaho Code, and for insurance premiums relating to long-term care in-  
21 surance under chapter 46, title 41, Idaho Code.

22 (g) "Medical savings account" means an account established with a de-  
23 pository to pay the eligible medical expenses of the account holder and  
24 the dependents and dependent children of the account holder. Medical  
25 savings accounts shall carry the name of the account holder, a desig-  
26 nated beneficiary or beneficiaries of the account holder and shall be  
27 designated by the depository as a "medical savings account."

28 (34) Upon agreement between an employer and employee, an employer  
29 may establish and contribute to the employee's medical savings account or  
30 contribute to an employee's existing medical savings account. For taxable  
31 years beginning on or after January 1, 1995, but before January 1, 2014, t  
32 he total combined annual contributions by an employer and the account holder  
33 shall not exceed two thousand dollars (\$2,000) for the account holder. Em-  
34 ployer contributions to an employee's medical savings account shall be owned  
35 by the employee.

36 (45) Funds held in a medical savings account may be withdrawn by the  
37 account holder at any time. Withdrawals for the purpose of paying eligi-  
38 ble medical expenses shall not be subject to the tax imposed in this chap-  
39 ter. Funds held in a medical savings account must be exhausted before the  
40 account holder, the account holder's dependent or the account holder's de-  
41 pendent child receives any state assistance for medical care. The burden of  
42 proving that a withdrawal from a medical savings account was made for an eli-  
43 gible medical expense is upon the account holder and not upon the depository  
44 or the employer of the account holder. Other withdrawals shall be subject to  
45 the following restrictions and penalties:

46 (a) There shall be a distribution penalty for withdrawal of funds by the  
47 account holder for purposes other than the payment of eligible medical  
48 expenses. The penalty shall be ten percent (10%) of the amount of with-  
49 drawal from the account and, in addition, the amount withdrawn shall be  
50 subject to the tax imposed in this chapter. The direct transfer of funds

1 from a medical savings account to a medical savings account at a differ-  
2 ent depository shall not be considered a withdrawal for purposes of this  
3 section. Charges relating to the administration and maintenance of the  
4 account by the depository are not withdrawals for purposes of this sec-  
5 tion.

6 (b) After an account holder reaches fifty-nine and one-half (59 1/2)  
7 years of age, withdrawals may be made for eligible medical expenses or  
8 for any other reason without penalty, but subject to the tax imposed by  
9 this section.

10 (c) Upon the death of an account holder, the account principal, as  
11 well as any interest accumulated thereon, shall be distributed without  
12 penalty to the designated beneficiary or beneficiaries.

13 (d) Funds withdrawn which are later reimbursed shall be taxable unless  
14 redeposited into the account within sixty (60) days of the reimburse-  
15 ment. Deposits of reimbursed eligible medical expenses shall not be in-  
16 cluded in calculating the amount deductible.

17 (e) Funds deposited in a medical savings account which are deposited  
18 in error or unintentionally and which are withdrawn within thirty (30)  
19 days of being deposited shall be treated as if the amounts had not been  
20 deposited in the medical savings account. Funds withdrawn from a medi-  
21 cal savings account which are withdrawn in error or unintentionally and  
22 which are redeposited within thirty (30) days of being withdrawn shall  
23 be treated as if the amounts had not been withdrawn from the medical sav-  
24 ings account.

25 (f) Funds withdrawn which are, not later than the sixtieth day after  
26 the day of the withdrawal, deposited into another medical savings ac-  
27 count for the benefit of the same account holder are not a withdrawal for  
28 purposes of this section and shall not be included in calculating the  
29 amount deductible.

30 (56) Reporting. Depositories, in the case of medical savings accounts,  
31 shall provide to the state tax commission, in the routine fashion used for  
32 all interest-bearing accounts, the same information that is provided for  
33 any interest-bearing bank account. So as to minimize the burden of report-  
34 ing, the information shall be provided in the format in which information is  
35 provided for any interest-bearing bank account to the state tax commission.  
36 There shall be no other reporting requirements. Account holders shall pro-  
37 vide on any state income tax form in which they take a deduction for a medical  
38 savings account the account number of their medical savings account and the  
39 depository at which the account is held.

40 (67) Any medical care savings account established pursuant to chapter  
41 53, title 41, Idaho Code, as enacted by chapter 186, laws of 1994, may be con-  
42 tinued pursuant to the provisions of this section and all duties, privileges  
43 and liabilities imposed in this section upon account holders of medical care  
44 savings accounts and the beneficiaries of those accounts shall apply to ac-  
45 count holders of medical care savings accounts and their beneficiaries es-  
46 tablished pursuant to chapter 53, title 41, Idaho Code, as enacted by chapter  
47 186, laws of 1994, as if the medical care savings account were a medical sav-  
48 ings account established pursuant to this section.

49 (78) (a) If the account holder's surviving spouse acquires the ac-  
50 count holder's interest in a medical savings account by reason of being

1 the designated beneficiary of such account at the death of the account  
2 holder, the medical savings account shall be treated as if the spouse  
3 were the account holder.

4 (b) If, by reason of the death of the account holder, any person ac-  
5 quires the account holder's interest in a medical savings account in a  
6 case to which ~~subparagraph~~ section (78) (a) of this section does not ap-  
7 ply:

8 (i) Such account shall cease to be a medical savings account as of  
9 the date of death; and

10 (ii) An amount equal to the fair market value of the assets in such  
11 account on such date shall be includable, if such person is not the  
12 estate of such holder, in such person's Idaho taxable income for  
13 the taxable year which includes such date, or if such person is the  
14 estate of such holder, in such holder's Idaho taxable income for  
15 the last taxable year of such holder.

16 (c) The amount includable in Idaho taxable income under ~~subparagraph~~  
17 ~~(b) of this subsection (78) (b) of this section~~ by any person, other than  
18 the estate, shall be reduced by the amount of qualified medical expenses  
19 which were incurred by the decedent before the date of the decedent's  
20 death and paid by such person within one (1) year after such date.

21 SECTION 2. An emergency existing therefor, which emergency is hereby  
22 declared to exist, this act shall be in full force and effect on and after its  
23 passage and approval, and retroactively to January 1, 2014.