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BILL ANALYSIS

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Senate Bills 197 and 198 (as introduced 2-15-05)
Sponsor: Senator Bruce Patterson
Committee: Health Policy

Date Completed: 3-9-05

CONTENT

Senate Bill 197 would amend the Income Tax Act to allow a taxpayer to claim an income tax credit equal to the taxpayer's contributions to a health savings account.

Senate Bill 198 would amend the Single Business Tax (SBT) Act to allow a taxpayer to claim an SBT credit equal to the contributions the taxpayer made to a health savings account on behalf of the taxpayer or the taxpayer's employees.

Senate Bill 197 would apply to tax years beginning after December 31, 2004. Senate Bill 198 would apply to tax years beginning after December 31, 2005. If the amount of the applicable credit exceeded the taxpayer's tax liability for the tax year, the portion of the credit that exceeded the tax liability could not be carried forward or refunded.

Under the bills, "health savings account" would mean a health savings account that met the requirements of Section 223 of the Internal Revenue Code. Under that section, the term means a trust created or organized in the United States as a health savings account exclusively for the purpose of paying the qualified medical expenses (i.e., medical care expenses that are not compensated for by insurance or otherwise) of the account beneficiary, but only if the written governing instrument creating the trust meets the following requirements:

-- The trustee is a bank, an insurance company, or another person who demonstrates to the satisfaction of the Secretary of the Treasury that the manner in which the person will administer the trust will be consistent with the requirements of Section 223.
-- No part of the trust assets will be invested in life insurance contracts.
-- The trust assets will not be commingled with other property except in a common trust fund or common investment fund.
-- The interest of an individual in the balance in his account is nonforfeitable.
-- No contribution will be accepted unless it is in cash, or to the extent that the contribution, when added to previous contributions to the trust for the calendar year, exceeds the sum of $4,500 and an additional contribution amount ranging from $600 in 2005 to $1,000 in 2009 and thereafter.

Proposed MCL 206.272 (S.B. 197) Legislative Analyst: Julie Koval
Proposed MCL 208.35c (S.B. 198)

FISCAL IMPACT

The preliminary estimate is that Senate Bill 197 would reduce income tax revenue by an estimated $35.0 million to $60.0 million in FY 2004-05 and $55.0 million to $90.0 million in FY 2005-06. Health savings accounts were created by the Federal government in 2003 and taxpayers may claim a deduction for contributions made to health savings accounts for the first time on their 2004 Federal income tax return. As a result, there are no actual data yet available on how many people will establish these accounts. The tax credit proposed in this bill would help encourage taxpayers to establish an account because their State income tax would be reduced by $1 for every $1 they deposited into an account, up to the amount of their overall tax liability. In fact, some taxpayers actually would receive tax benefits that exceed their total contributions, due to the fact that the Federal government already provides a deduction for contributions made to health savings accounts that is part of the adjusted gross income (AGI) calculation. Because Michigan uses Federal AGI as the starting point for calculating taxable income, contributions to health savings accounts lower a Michigan taxpayer's taxable income. For example, someone contributing $1,000 to a health savings account, under current law would reduce his or her AGI by $1,000 and therefore reduce his or her Michigan income tax by $39. Under this bill, this taxpayer also would be able to claim a tax credit equal to his or her $1,000 contribution, assuming tax liability of at least $1,000, and therefore would receive a total tax reduction of $1,039 as a result of the $1,000 contribution.

Senate Bill 198 would provide a tax credit against the single business tax for contributions businesses made to their own or an employee's health savings accounts. There is not enough information available at this time to provide a reasonable estimate of the degree to which businesses would participate in these accounts, but the tax credit proposed in this bill would certainly provide businesses with a potential way to help reduce their health care costs, as long as they have a single business tax liability. Therefore, this bill would potentially have a significant fiscal impact.

Fiscal Analyst: Jay Wortley

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