

FILED MAR 6 2002

SENATE FILE 2312  
BY REDWINE

Passed Senate, Date \_\_\_\_\_ Passed House, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

**A BILL FOR**

1 An Act relating to the establishment of medical savings accounts  
2 and associated tax incentives and including an applicability  
3 date provision.

4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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SF 2312  
WAYS & MEANS

1 Section 1. Section 422.7, Code Supplement 2001, is amended  
2 by adding the following new subsection:

3 NEW SUBSECTION. 38. If the taxpayer is an account holder  
4 of a medical savings account pursuant to chapter 541B at any  
5 time during the tax year, the following adjustments shall be  
6 made:

7 a. Subtract, to the extent included, the following:

8 (1) Contributions made in cash equal to the aggregate  
9 amount of the eligible monthly contribution amounts as  
10 computed pursuant to section 541B.3, subsection 2.

11 (2) Interest and earnings on moneys in the medical savings  
12 account.

13 b. Add, to the extent not included, the amount of  
14 distributions which are not used to pay qualified medical  
15 expenses, as defined in section 541B.1, but only if the amount  
16 was previously excluded in determining net income under rules  
17 adopted by the department.

18 c. The adjustment required to reflect the tax treatment of  
19 transfers of an account holder's interest in a medical savings  
20 account as a result of dissolution of marriage, separation, or  
21 death, as provided in section 541B.4, subsections 3 and 4.

22 A taxpayer who is allowed a deduction under section 220 of  
23 the Internal Revenue Code for any month of the tax year is not  
24 allowed any adjustments under this subsection.

25 Sec. 2. NEW SECTION. 541B.1 DEFINITIONS.

26 For purposes of this chapter, unless the context otherwise  
27 requires:

28 1. "Account holder" means the individual in whose name the  
29 medical savings account is established.

30 2. "Medical savings account" means a financial instrument  
31 established as provided in and meeting the requirements of  
32 section 541B.2.

33 3. "Net income" means the net income as computed for state  
34 income purposes pursuant to section 422.7.

35 4. "Qualified medical expenses" means amounts paid by the

1 account holder for medical care, as defined in section 213(d)  
2 of the Internal Revenue Code for the account holder, account  
3 holder's spouse and any dependent, as defined in section 152  
4 of the Internal Revenue Code, of the account holder to the  
5 extent not otherwise compensated for by insurance or  
6 otherwise.

7 Sec. 3. NEW SECTION. 541B.2 MEDICAL SAVINGS ACCOUNT  
8 AUTHORIZED -- REQUIREMENTS.

9 1. A financial instrument known as a medical savings  
10 account is established. A medical savings account is a trust  
11 created or organized in the United States exclusively for the  
12 purpose of paying the qualified medical expenses of the  
13 account holder, but only if the written governing instrument  
14 creating the trust meets the following requirements:

15 a. A contribution shall be accepted only if it is in cash.

16 b. The trustee is a bank, as defined in section 408(n) of  
17 the Internal Revenue Code, an insurance company, as defined in  
18 section 816 of the Internal Revenue Code, or other person  
19 approved by the banking division as an investment mechanism  
20 for medical savings accounts and licensed to do business in  
21 this state.

22 c. The trust assets or any part of the assets shall not be  
23 invested in life insurance contracts.

24 d. The trust assets shall not be commingled with other  
25 property except in a common trust fund or common investment  
26 fund.

27 e. The interest of an individual in the balance of the  
28 individual's account is nonforfeitable.

29 2. An individual shall not be an account holder of more  
30 than one medical savings account. However, the medical  
31 expenses of an account holder may include the medical expenses  
32 of the account holder's spouse and dependents as well as the  
33 medical expenses of the account holder. An individual claimed  
34 as a dependent on another's income tax return is ineligible to  
35 be an account holder.

1     Sec. 4. NEW SECTION. 541B.3 ELIGIBILITY -- TAX  
2 DEDUCTION.

3     1. An individual is eligible to make monthly contributions  
4 to a medical savings account if the individual is not covered  
5 by a health plan established and maintained by the employer of  
6 the individual or the individual's spouse, determined as of  
7 the first day of each calendar month in which a contribution  
8 is to be made.

9     For purposes of this section, "health plan" does not  
10 include any of the following:

11     a. Coverage, through insurance or otherwise, for  
12 accidents, disability, dental care, vision care, or long-term  
13 care.

14     b. Insurance for liabilities incurred under workers'  
15 compensation laws or tort liabilities.

16     c. Insurance for specified disease or illness.

17     d. Insurance paying a fixed amount per day, or other  
18 period of time, of hospitalization.

19     2. Contributions to a medical savings account are  
20 deductible in determining the account holder's net income,  
21 subject to the following limitations:

22     a. For the tax year, the aggregate amount paid in cash of  
23 the eligible monthly contribution amounts.

24     b. The eligible monthly contribution amount equals the  
25 following applicable amount:

26     (1) If the account holder is a single person or a married  
27 person filing a separate return, one hundred fifty dollars.

28     (2) If the account holder is a married person who files a  
29 joint return and the spouse does not have a separate account,  
30 three hundred dollars.

31     (3) If the account holder is a married person who files a  
32 joint return and the spouse has a separate account, one  
33 hundred fifty dollars.

34     Sec. 5. NEW SECTION. 541B.4 TAX TREATMENT OF  
35 DISTRIBUTIONS AND TRANSFERS.

1 1. Any amount paid or distributed out of a medical savings  
2 account which is used exclusively to pay qualified medical  
3 expenses of any account holder shall not be included in the  
4 net income of the account holder.

5 2. Any amount paid or distributed out of a medical savings  
6 account which is not used exclusively to pay the qualified  
7 medical expenses of the account holder shall be included in  
8 net income of the account holder to the extent such amount  
9 represents contributions that were previously excluded from  
10 net income in any year under rules adopted by the department  
11 of revenue and finance.

12 3. The transfer of an individual's interest in a medical  
13 savings account to an individual's spouse or former spouse  
14 under a dissolution of marriage or separation decree or  
15 written instrument incident to such decree shall not be  
16 considered a taxable transfer for state income tax purposes  
17 and the spouse or former spouse shall be the account holder.

18 4. Upon the death of the account holder, the following  
19 apply:

20 a. If the surviving spouse acquires the account holder's  
21 interest in the medical savings account by reason of becoming  
22 the beneficiary of such account, the account shall be treated  
23 as if the spouse were the account holder and shall not be  
24 included in the net income of the surviving spouse.

25 b. If a person other than the surviving spouse acquires  
26 the account holder's interest in the medical savings account,  
27 the account shall cease to be a medical savings account and  
28 shall be included in that person's net income to the extent  
29 moneys in the account were excluded in net income of the  
30 account holder in any year.

31 Sec. 6. APPLICABILITY DATE. This Act applies to tax years  
32 beginning on or after the effective date of this Act.

33 EXPLANATION

34 This bill creates a financial instrument known as a medical  
35 savings account (MSA). The MSA is set up as a trust to be

1 used to pay the expenses for medical care of the account  
2 holder, and the spouse and dependents of the account holder.  
3 Incentives are provided for contributions to the MSA.  
4 Eligible individuals who make contributions may deduct the  
5 amount of contributions made in each month they were eligible.  
6 To be eligible, the individual must not be covered under a  
7 health care plan maintained by the individual's employer or  
8 the employer of the individual's spouse. Eligibility is  
9 determined on the first day of each month for purposes of  
10 contributions made during that month. The amount of tax-  
11 deductible contributions per month is \$150 if the individual  
12 is a single person, or a married person filing separately,  
13 \$300 if the individual is a married person filing jointly, or  
14 \$150 if the individual is a married person filing jointly,  
15 where each spouse has a separate MSA.

16 An additional incentive includes the deduction for interest  
17 and earnings on moneys in the MSA. Distributions from the MSA  
18 that are not used for medical care expenses are taxable to the  
19 extent the distribution was from moneys previously deducted.  
20 If the account holder's interest in the MSA is transferred to  
21 a spouse under a divorce or separation decree, the transfer is  
22 not subject to tax. Upon the death of an account holder, the  
23 interest in the MSA that is transferred to the surviving  
24 spouse is a nontaxable transfer, and the interest transferred  
25 shall be considered the spouse's MSA.

26 The bill applies to tax years beginning on or after the  
27 effective date of the bill.

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