

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2017-18		FY 2018-19	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	\$116,615	See Below	\$28,939	See Below
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	\$116,615	See Below	\$28,939	See Below

Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.

LB 362 creates the Health Saving Account Act.

The bill would provide an income tax deduction in an amount equal to the aggregate amount paid in cash during the taxable year to a health savings account by or on behalf of an individual who is an eligible individual for any month during the taxable year, subject to certain limitations.

The health savings account is exempt from taxes and any amount paid for qualified medical expenses is not included in gross income of the beneficiary. Any amount paid for nonqualified medical expenses is included in the gross income of the beneficiary, as are contributions to a health savings account during months an individual is not eligible.

The Department of Revenue has indicated that they cannot determine the revenue impact of LB 362 because it is unclear how many individuals would find it beneficial to establish this type of Health Savings Account.

We agree with the Department of Revenue's assessment and add that it is difficult to determine even how many individuals would be eligible to establish this type of Health Savings Account.

The Department of Revenue indicates that LB 362 would require a one-time programming charge of \$78,215 paid to the Office of the CIO, regardless of how many individuals would establish a Health Savings Account. Assuming that at least some individuals establish such an account, the Department indicates a need for 0.5 FTE Revenue Tax Specialist in FY2017-18 and 0.5 FTE Revenue Operations Clerk II in subsequent years. PSL for FY2017-18 would be \$25,084 and for FY2018-19 would be \$15,457.

We have no basis to disagree with the Department of Revenue's estimate of cost.

State Agency Estimate

State Agency Name: Department of Revenue		Date Due LFA: 3/20/2017				
Approved by: Tony Fulton		Date Prepared: 3/17/2017				
		Phone: 471-5896				
	FY 2017-2018		FY 2018-2019		FY 2019-2020	
	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>
General Funds	\$116,615	See below	\$28,939	See below	\$29,373	See below
Cash Funds						
Federal Funds						
Other Funds						
Total Funds	\$116,615	See below	\$28,939	See below	\$29,373	See below

LB 362 creates the Health Savings Account Act, which allows an income tax deduction in an amount equal to the aggregate amount paid in cash during the taxable year to a health savings account by or on behalf of an individual who is an eligible individual for any month during the taxable year, subject to limitations. The Health Savings Account is similar to an Archer MSA or a federal health savings account, but makes the account available to any eligible individual, not just those who are self-employed, employed by a small employer, or who have a high deductible insurance plan. An individual who is eligible during the last month of a taxable year is treated as eligible during each of the months of the same taxable year.

The total amount allowable as a deduction for a taxable year cannot exceed the sum of the monthly limitations for the months the individual qualifies as an eligible individual. If an individual is eligible the whole year, with self-only coverage, the maximum deduction is \$2,250; with family coverage, the maximum is \$4,500. In the case of an individual 55 or over, the applicable limitation is increased by the additional contribution amount, which is graduated beginning with an additional \$500 for taxable years beginning in 2018 and caps at an additional \$1,000 for tax years beginning in 2023 and after. The limitation is subject to annual COLA increases of at least \$50. When an individual receives Social Security benefits under Title XVIII, the contribution limit is zero. The limitation is also reduced by the amount paid for a taxable year to an Archer MSA of the individual, or by the amount contributed to a federal health savings plan which is excludable from income under IRC §§ 106(d) or 408(d)(9).

The legislation defines pertinent terms. For each month, an eligible individual is an individual covered under a qualified health insurance plan as of the first day of the month. A health savings account is a trust created exclusively for the purpose of paying the qualified medical expenses of the account beneficiary, which is subject to enumerated requirements. The trustee must be a bank or insurance company. Qualified medical expenses are amounts paid by a beneficiary for medical care as defined in IRC § 213(d), as amended, for the individual, his or her spouse, and any dependent as defined in IRC § 152 but only to the extent such amounts are not compensated for by insurance or otherwise. Insurance premiums, prescription medication, and insulin are specifically included as eligible expenses.

A health savings account is exempt from taxes and any amount paid for qualified medical expenses is not included in gross income of the beneficiary. Any amount paid for nonqualified medical expenses is included in the gross income of the beneficiary, as are contributions to a health savings account during months an individual is not eligible. An additional penalty amounting to a 10% increase in income tax is applied when contributions are made during ineligible months; and an additional penalty amounting to a 20% increase in income tax is applied when any amount paid or distributed is not used exclusively to pay qualified medical expenses. Rollover transfers into health savings accounts are permitted.

The Department cannot determine the revenue impact of LB 362 because it is unclear how many individuals would find it beneficial to establish this type of Health Savings Account.

