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**STATE OF RHODE ISLAND**

**IN GENERAL ASSEMBLY**

**JANUARY SESSION, A.D. 2002**

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A N A C T

RELATING TO MEDICAL SAVINGS ACCOUNT

Introduced By: Representatives Mumford, Fleury, Costantino, Savage, and Henseler

Date Introduced: January 23, 2002

Referred To: House Corporations

It is enacted by the General Assembly as follows:

1           SECTION 1. This act shall be known and may be cited as the “Scituate Medical Savings  
2 Account Act.”

3           SECTION 2. Chapter 44-30 of the General Laws entitled “Personal Income Tax” is  
4 hereby amended by adding thereto the following section:

5           **44-30-27. Modification and tax credit relating to Scituate medical savings accounts.**

6           – (a) As used in this section: (1) “Account administrator” means any of the following as may be  
7 determined by the town council:

8           (i) the town;

9           (ii) a state chartered bank, savings and loan association, credit union, or trust company  
10 authorized to act as fiduciary in this state; or a national banking association or federal savings and  
11 loan association or credit union authorized to act as fiduciary in this state;

12           (iii) an insurance company authorized to do business in this state; and

13           (iv) a company which is engaged in the administration of health care plans.

14           (2) “Deductible” means the total deductible for a participant and all the dependents of  
15 that participant for a calendar year as established by the town council.

16           (3) “Dependent” means the spouse of a participant or a child of a participant if the child  
17 is any of the following:

18           (i) under twenty-three (23) years of age and enrolled as a full-time student at an  
19 accredited college or university or under nineteen (19) years of age;

20           (ii) legally entitled to the provision of proper or necessary subsistence, education, medical

1 care, or other care necessary for his or her health, guidance or well-being and not otherwise  
2 emancipated, self-supporting, married, or a member of the armed forces of the United States; and

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

4 (4) “Eligible medical expense” means an expense paid by the participant for medical care  
5 described in section 213(d) of the internal revenue code.

6 (5) “Medical savings account” or “account” means an account established by a  
7 participant with the account administrator to pay the eligible medical expenses of a participant  
8 and the dependents of a participant.

9 (6) “Participant” means any resident or employee of the town who establishes a medical  
10 savings account.

11 (7) “Qualified higher deductible health plan” means a health coverage policy, certificate,  
12 or contract or health plan that provides for payments for covered benefits that exceed the  
13 deductible.

14 (8) “Town council” means the elected town council of the town of Scituate.

15 (9) “Town” means the town of Scituate.

16 (10) “State” means the state of Rhode Island.

17 (b)(1) An account administrator shall administer a medical savings account from which  
18 the payment of claims is made and has a fiduciary duty to the person for whose benefit the  
19 account administrator administers an account. Funds in a medical savings account shall be held in  
20 a state of federal chartered bank or savings and loan institution and shall not be commingled with  
21 other funds.

22 (2) Not more than thirty (30) days after an account administrator begins to administer an  
23 account, the account administrator shall notify in writing each participant on whose behalf the  
24 account administrator administers an account of the date of the last business day of the account  
25 administrator’s business year.

26 (3) The participant shall utilize the funds held in a medical savings account solely for the  
27 purpose of paying the eligible medical expenses of that participant or his or her dependents or to  
28 purchase a health coverage policy, certificate or contract. Funds held in a medical savings account  
29 shall not be used to pay medical expenses of the participant or his or her dependents that are  
30 otherwise reimbursable, including, but not limited to, medical expenses payable pursuant to an  
31 automobile insurance policy, workers’ compensation insurance policy or self-insured plan, or  
32 another health coverage policy, certificate or contract.

33 (4) The participant may submit documentation of medical expenses paid by the  
34 participant in the tax year to the account administrator, and the account administrator shall

1 reimburse the participant from the participant's account for eligible medical expenses.

2 (5) If the town, state or an employer of a participant makes contributions to a medical  
3 savings account on a periodic installment basis, the town, state or an employer of a participant  
4 may advance to a participant, interest free, the amount necessary to cover medical expenses  
5 incurred that exceed the amount in the participant's medical savings account at the time the  
6 expense is incurred if the participant agrees to repay the advance from future installments or  
7 when he or she ceases to be an employee of the town, state or such employer.

8 (c)(1) The portion (or all) of any contribution to a medical savings account, to the extent  
9 it is deemed income under the internal revenue code, shall be a modification decreasing federal  
10 adjusted gross income of the participant for the purpose of determining his or her Rhode Island  
11 income tax liability in the year of the contribution. Income, including gains and losses, on a  
12 medical savings account shall be exempt from taxation under this chapter.

13 (2) A participant may withdraw money from his or her medical savings account for any  
14 purpose other than a purpose described in subsection (c)(3) only on the last business day of the  
15 account administrator's business year.

16 (3) Upon the death of a participant, the account administrator shall distribute the principal  
17 and accumulated interest of the medical savings account to the estate of the participant.

18 (4) Amounts in a medical savings account at the end of a year may be used to pay eligible  
19 medical expenses in future years, and any such amounts shall not reduce the amount that must be  
20 contributed by or on behalf of a participant.

21 (d) A participant who contributes to a medical savings account shall be entitled to a tax  
22 credit of two hundred dollars (\$200) per year.

23 SECTION 3. This act shall take effect upon passage

EXPLANATION  
BY THE LEGISLATIVE COUNCIL  
OF  
A N A C T  
RELATING TO MEDICAL SAVINGS ACCOUNT

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1           This act would permit the establishment of medical savings accounts for residents and  
2 employees of the town of Scituate and allows a participant who contributes to a medical savings  
3 account shall be entitled to a tax credit of two hundred dollars (\$200).

4           This act would take effect upon passage.

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