

STATE OF RHODE ISLAND

IN GENERAL ASSEMBLY

JANUARY SESSION, A.D. 2002

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           **44-30-25.1. Modification relating to medical savings accounts. --** (a) As used in this  
6   section:

7           (1) "Account administrator" means any of the following:

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

11          (B) An insurance company authorized to do business in this state;

12          (2) "Account holder" means a resident individual of the town of Scituate who establishes  
13 a medical savings account.

14          (3) "Deductible" means the total deductible for an employee or account holder and all  
15 the dependents of that employee or account holder for a calendar year.

16          (4) "Dependent" means the spouse of the employee or account holder or a child of the  
17 employee or account holder if the child is any of the following:

18          (A) 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;

1       (B) Legally entitled to the provision of proper or necessary subsistence, education,  
2 medical care, or other care necessary for his or her health, guidance or well-being and not  
3 otherwise emancipated, self-supporting, married, or a member of the Armed Forces of the United  
4 States; and

5       (C) Mentally or physically incapacitated to the extent that he or she is not self-sufficient.

6       (5) “Eligible medical expense” means an expense paid by the taxpayer for medical care  
7 described in section 213(d) of the Internal Revenue Code.

8       (6) “Employee” means an individual employed by the town of Scituate for whose benefit  
9 or for the benefit of whose dependents a medical savings account is established.

10       (7) “Employer” means the town of Scituate.

11       (8) “ERISA” means the Employee Retirement Income Security Act of 1974, public law  
12 93-406, 88 Stat. 829, as amended.

13       (9) “Higher deductible” means an annual deductible in the applicable amount (as  
14 adjusted) set forth in section 220(c)(2)(A) of the Internal Revenue Code.

15       (10) “Medical savings account” or “account” means (a) an account established in this  
16 state pursuant to a medical savings account program to pay the eligible medical expenses of an  
17 employee or account holder and the dependents of the employee or account holder, or (b) an  
18 account as defined in section 220(d) of the Internal Revenue Code.

19       (11) “Medical savings account program” or “program” means one (1) of the following  
20 programs:

21       (A) A program established by an employer that previously provided a health coverage  
22 policy, certificate or contract or self insured health plan that includes all of the following:

23       (i) The purchase by an employer of a qualified higher deductible health plan for the  
24 benefit of an employee or an employee and his or her dependents; and

25       (ii) The contribution on behalf of an employee into a medical savings account by his or  
26 her employer of all or part of the higher deductible of the plan purchased pursuant to the  
27 preceding subparagraph (A)(i). The employee may contribute into the account in addition to a  
28 contribution by the employer all or part of the difference between the employer’s contribution and  
29 the amount of the higher deductible.

30       (B) A program established by an employer that did not previously provide a health  
31 coverage policy, certificate or contract or self insured health plan that includes the following:

32       (i) The purchase by an employer of a qualified higher deductible health plan for the  
33 benefit of an employee or an employee and his or her dependents; and

1           (ii) The contribution on behalf of an employee into a medical savings account by his or  
2 her employer of all or part of the higher deductible of the plan purchased pursuant to the  
3 preceding subparagraph (B)(i). The employee may contribute to the account in addition to a  
4 contribution by the employer all or part of the difference between the employer's contribution and  
5 the amount of the higher deductible.

6           (C) A program established by an account holder that includes all of the following:

7           (i) The purchase by the account holder of a qualified higher deductible health plan for  
8 the benefit of the account holder or the account holder and his or her dependents; and

9           (ii) A contribution by the account holder into a medical savings account of an amount  
10 not more than the amount of the higher deductible.

11           (12) "Qualified higher deductible health plan" means a health coverage policy,  
12 certificate, or contract or health plan that provides for payments for covered benefits that exceed  
13 the higher deductible and that is purchased or established by an account holder or by an employer  
14 for the benefit of an account holder or employee for whom the account holder or employer makes  
15 deposits into a medical savings account.

16           (b)(1) For tax years beginning after December 31, 2002, both of the following apply:

17           (A) An employer, except as otherwise provided by statute, contract, or a collective  
18 bargaining agreement, may offer a medical savings account program to the employer's employees  
19 and their dependents; and

20           (B) A resident individual of the town of Scituate may establish a medical savings account  
21 program for himself or herself and his or her dependents.

22           (2) Before making any contributions, an employer that offers a medical savings account  
23 program shall inform all employees in writing of the state and federal tax status of contributions  
24 made pursuant to this section.

25           (3) Upon agreement between an employer and an employee, an employee may have his  
26 or her employer contribute either to the employee's medical savings account or continue to make  
27 contributions under the employer's existing health insurance policy program.

28           (c)(1) An account administrator shall administer the medical savings account from which  
29 the payment of claims is made and has a fiduciary duty (including the duty to prudently invest  
30 uncommitted funds on deposit in medical savings accounts) to the person for whose benefit the  
31 account administrator administers an account.

32           (2) Not more than thirty (30) days after an account administrator begins to administer an  
33 account, the account administrator shall notify in writing each employee and account holder on  
34 whose behalf the account administrator administers an account of the date of the last business day

1 of the account administrator's business year.

2 (3) The employee or account holder shall utilize the funds held in a medical savings  
3 account solely for the purpose of paying the eligible medical expenses of the employee or account  
4 holder or his or her dependents or to purchase a health coverage policy, certificate or contract.  
5 Funds held in a medical savings account shall not be used to pay medical expenses of the  
6 employee or account holder or his or her dependents that are otherwise reimbursable, including  
7 but not limited to medical expenses payable pursuant to an automobile insurance policy, worker's  
8 compensation insurance policy or self insured plan, or another health coverage policy, certificate  
9 or contract.

10 (4) The employee or account holder may submit documentation of medical expenses paid  
11 by the employee or account holder in the tax year to the account administrator, and the account  
12 administrator shall reimburse the employee or account holder from the employee's or account  
13 holder's account for eligible medical expenses. Provided, further, other methods for payment of  
14 eligible medical expenses, including the use of a swipe card or checkbook, shall also be allowed.

15 (5) If an employer makes contributions to a medical savings account program on a  
16 periodic installment basis, the employer may advance to an employee, interest free, the amount  
17 necessary to cover medical expenses incurred that exceed the amount in the employee's medical  
18 savings account at the time the expense is incurred if the employee agrees to repay the advance  
19 from future installments or when he or she ceases to be an employee of the employer.

20 (d)(1) The portion of any contribution to a medical savings account, to the extent it is  
21 deemed taxable income under the Internal Revenue Code, shall be a modification decreasing  
22 federal adjusted gross income of the participant for the purpose of determining his or her Rhode  
23 Island income tax liability in the year of the contribution. Provided, however, the modification  
24 shall not exceed an amount which would otherwise be allowed based on the maximum  
25 contribution under section 220 of the Internal Revenue Code. Income, including gains and losses,  
26 on a medical savings account shall be exempt from taxation under this chapter.

27 (2) An employee or account holder may withdraw money from his or her medical  
28 savings account for any purpose other than a purpose described in subsection (c)(3) without  
29 incurring the penalty under subsection (3)(B) only when the withdrawal is made on the last  
30 business day of the account administrator's business year; provided, however, the money  
31 withdrawn on that date shall not be eligible for the modification or the exemption provided under  
32 subsection (d)(1) and the amount of any such withdrawal shall, to the extent that any earlier  
33 contribution(s) or income was claimed as a modification decreasing federal adjusted gross income  
34 for Rhode Island purposes shall be a modification increasing federal adjusted gross income of the

account holder or employee for the purpose of determining his or her Rhode Island income tax liability in the year of the withdrawal(s).

(3) Subject to subsection (d)(4), if an employee or account holder withdraws money from a medical savings account (i) for any purpose other than a purpose described in subsection (c)(3) at any time other than the last business day of the account administrator, or (ii) in an amount that exceeds any applicable limit for medical savings accounts pursuant to section 220 of the Internal Revenue Code, the following shall apply:

(A) the money withdrawn shall not be eligible for the modification or the exemption provided under subsection (d)(1) and the amount of any such withdrawal shall, to the extent that any earlier contribution(s) or income was claimed as a modification decreasing federal adjusted gross income for Rhode Island purposes shall be a modification increasing federal adjusted gross income of the account holder or employee for the purpose of determining his or her Rhode Island income tax liability in the year of the withdrawal(s); and

(B) the administrator shall withhold from the amount of the withdrawal and on behalf of the account holder or employee, shall pay a penalty to the Rhode Island Division of Taxation equal to ten percent (10%) of the amount of the withdrawal.

(4) The amount of a disbursement of any assets of a medical savings account pursuant to a filing for protection under title 11 of the United States Code, 11 U.S.C. 101 to 1330 by an employee, account holder, or person for whose benefit the account was established is not considered a withdrawal for purposes of this section.

(5) Upon the death of the account holder or employee, the account administrator shall distribute the principal and accumulated interest of the medical savings account to the estate of the account holder or employee.

(6) If an employee is no longer employed by the town of Scituate and the employee, not more than sixty (60) days after his or her final day of employment, transfers the account to a new account administrator or requests in writing to the town's account administrator that the account remain with that administrator and that account administrator agrees to retain the account, the money in the medical savings account may be utilized for the benefit of the employee or the employee and his or her dependents subject to this section. Not more than thirty (30) days after the expiration of the sixty (60) days, if an account administrator has not accepted the former employee's account, the employer shall mail a check to the former employee at the employee's last know address equal to the amount in the account on that day. If an employee becomes employed with a different employer that participates in a medical savings account program, the employee may transfer his or her medical savings account to that new employer's account

1 administrator. If an account holder becomes an employer that participates in the medical savings  
2 account program, the account holder may transfer his or her account to the employer's account  
3 administrator.

4 (7) Amounts in a medical savings account at the end of a year may be used to pay  
5 eligible medical expenses in future years, and any such amounts shall not reduce the amount that  
6 must be contributed by an employer.

7 (8) After an account holder or employee reaches fifty-nine and one-half (59 1/2) years of  
8 age, withdrawals shall not be subject to the ten percent (10%) penalty.

9 (9) An account holder whose account consists solely of his or her own funds and no  
10 funds from a employer, shall be entitled to a tax credit of two hundred dollars (\$200) in each year  
11 the account holder makes the maximum contribution to his or her account.

12 SECTION 3. Section 44-30-12 of the General Laws in chapter 44-30 entitled "Personal  
13 Income Tax" is hereby amended to read as follows:

14 **44-30-12. Rhode Island income of a resident individual. --** (a) General. The Rhode  
15 Island income of a resident individual means his or her adjusted gross income for federal income  
16 tax purposes, with the modifications specified in this section.

17 (b) Modifications increasing federal adjusted gross income. There shall be added to  
18 federal adjusted gross income:

19 (1) Interest income on obligations of any state, or its political subdivisions, other than  
20 Rhode Island or its political subdivisions;

21 (2) Interest or dividend income on obligation or securities of any authority, commission,  
22 or instrumentality of the United States, but not of Rhode Island or its political subdivisions, to the  
23 extent exempted by the laws of the United States from federal income tax but not from state  
24 income taxes.

25 (3) The modification described in 44-30-25(g).

26 (4) The modification described in 44-30-25.1(d)(3)(A).

27 (c) Modifications reducing federal adjusted gross income. There shall be subtracted  
28 from federal adjusted gross income (1) any interest income on obligations of the United States  
29 and its possessions to the extent includible in gross income for federal income tax purposes, and  
30 any interest or dividend income on obligations, or securities of any authority, commission, or  
31 instrumentality of the United States to the extent includible in gross income for federal income  
32 tax purposes but exempt from state income taxes under the laws of the United States; provided  
33 that the amount to be subtracted shall in any case be reduced by any interest on indebtedness  
34 incurred or continued to purchase or carry obligations or securities the income of which is exempt

1 from Rhode Island personal income tax, to the extent the interest has been deducted in  
2 determining federal adjusted gross income or taxable income; (2) the modification described in  
3 44-30-25(f); (3) the modification described in Section 44-30-1.1(C)(1); and (4) the modification  
4 described in 44-30-25.1(d)(1).

5 (d) Modification for Rhode Island fiduciary adjustment. There shall be added to or  
6 subtracted from federal adjusted gross income (as the case may be) the taxpayer's share as  
7 beneficiary of an estate or trust, of the Rhode Island fiduciary adjustment determined under 44-  
8 30-17.

9 (e) Partners. The amounts of modifications required to be made under this section by a  
10 partner, which relate to items of income or deduction of a partnership, shall be determined under  
11 44-30-15.

12 SECTION 4. This act shall take effect upon passage.

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LC00991/SUB A/2  
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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 by the town of  
2   Scituate and individuals.  
3           This act would take effect upon passage.

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LC00991/SUB A/2

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