

# Legislative Analysis

---



## LONG-TERM HEALTH CARE SAVINGS ACCOUNTS

Mitchell Bean, Director  
Phone: (517) 373-8080  
<http://www.house.mi.gov/hfa>

### House Bills 4790 and 4791

**Sponsor: Rep. Kevin Green**

**1<sup>st</sup> House Committee: Tax Policy**

**2<sup>nd</sup> House Committee: Insurance**

**Complete to 4-26-06**

## A SUMMARY OF HOUSE BILLS 4790 AND 4791 AS INTRODUCED 5-17-05

House Bill 4790 would create a new act known as the Long-Term Health Care Savings Account Act to allow individuals to establish long-term health care savings accounts for the purposes of paying long-term health care costs, including insurance premiums. House Bill 4791 would provide an income tax deduction for contributions to, and distributions from, a long-term health savings account established pursuant to House Bill 4790. The bills are tie-barred to each other.

### House Bill 4790

Under the bill, individual residents could establish a long-term health savings account with an "account administrator" to pay for long-term health care expenses for himself or herself, or a spouse, parent, or child for whom an exemption is claimed under the Income Tax Act. Individuals could also jointly establish an account with a spouse. The bill would allow contributions to the account to be made in cash or by check, money order, credit card, or other similar method, although contributions could not be made in the form of property.

The account administrator would have a fiduciary responsibility to the account beneficiary, and would utilize funds in the account solely for the purposes of paying long-term health care expenses. If the account holder withdraws funds from the account for a purpose other than paying long-term health care expenses, the administrator would withhold 10 percent of the amount withdrawn as a penalty payable to the Department of Treasury. However, the disbursement of any assets of an account pursuant to bankruptcy proceedings under Title 11 of the United States Code would not be considered a withdrawal. If an account holder were to die, the administrator would distribute the principal and accumulated interest of the account to the account holder's estate.

The bill defines "account administrator" to mean a state chartered bank, savings and loan association, credit union, or trust company authorized to act as fiduciary and under the supervision of the Office of Insurance and Financial Services; or a national banking association, federal savings and loan association, or credit union authorized to act as a fiduciary in the state.

Also, the bill defines "long-term health care costs" to mean expenses paid by the account holder or on the account holder's behalf for the use of skilled nursing care, home health care, personal care, or supportive services due to the loss of some capacity of self-care based on a chronic illness or another condition.

### **House Bill 4791**

House Bill 4791 would amend the Income Tax Act to allow taxpayers to deduct from taxable income all contributions made to a long-term health care savings account, any interest earned in the tax year from a long-term health care savings account, and any qualified withdrawals from a long-term health care savings account. The deduction would apply for tax years beginning after December 31, 2004, and would apply to the extent the contribution, interest, or distribution had not already been deducted in determining adjusted gross income. However, the amount of the deduction would be capped at \$5,000 for a single return and \$10,000 for a joint return.

MCL 206.30

### **FISCAL IMPACT:**

The fiscal impact of House Bill 4790 and House Bill 4791 depends on the participation in the long-term health care savings accounts, as well as the level of contributions, qualified distributions, interest earned, and penalties imposed on the accounts. These bills would reduce income tax revenue by an estimated \$1 million to \$6 million annually. Approximately 77 percent of this reduction would affect the General Fund/General Purpose (GF/GP) and 23 percent would affect the School Aid Fund (SAF). However, to the degree tax benefits are taken through refunds, the GF/GP affect would be greater and the SAF would be less.

Legislative Analyst: Mark Wolf  
Fiscal Analyst: Rebecca Ross

---

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.