

ASSEMBLY APPROPRIATIONS COMMITTEE

STATEMENT TO

ASSEMBLY COMMITTEE SUBSTITUTE FOR
ASSEMBLY COMMITTEE SUBSTITUTE FOR
ASSEMBLY, Nos. 671 and 495

STATE OF NEW JERSEY

DATED: JANUARY 9, 1997

The Assembly Appropriations Committee reports favorably Assembly Bill Nos. 671 and 495 by committee substitute.

This Assembly Committee Substitute for Assembly Bill Nos. 671/495 (ACS) establishes gross income tax advantages for employer or employee contributions to "medical savings accounts," defined identically to medical savings accounts pursuant to the federal "Health Insurance Portability and Affordability Act of 1996," Pub.L.104-191. The substitute also requires the New Jersey Individual Health Coverage Program Board and the New Jersey Small Employer Health Benefits Program Board to adopt modifications to one or more plans as the boards determine are necessary to make available "high deductible health plans" compatible with the federally qualified medical savings accounts.

Recently enacted 26 U.S.C. §220 allows those employees of small employers and the self-employed who are covered by a "high deductible" health plan to establish medical savings accounts. Some of the contributions to these savings accounts can be excluded or deducted from the federal taxable income of the employee. Funds withdrawn to pay eligible medical expenses remain excluded from taxation; funds withdrawn for other purposes are subject to federal taxation and penalties.

The federal program is a pilot program, limited so that the total number of employees in the United States who will be allowed the federal tax advantages of medical savings accounts may not exceed 750,000. This substitute provides parallel New Jersey gross income tax exclusions and deduction for employees participating in the federal pilot program. The substitute exempts contributions to federally qualified medical savings accounts from New Jersey gross income taxation if the contributions are exempt from federal taxation; exempts withdrawals from accounts from State taxation if the withdrawals are subject to federal taxation; and subjects withdrawals to State taxation if the withdrawals are subject to federal taxation.

This substitute makes technical changes from the prior substitute:

to delete the definition sections, putting the responsibility of tax administration on the federal regulators; to make the requirement to the Individual Health Coverage Board and the Small Employer Health Benefits Board more flexible, allowing more minor adjustments to the existing health plans; to add a clarifying amendment to prevent the possibility of double tax benefits; and to delete the penalty provision, because adequate penalties are provided under federal statute.

FISCAL IMPACT:

No specific information is available on how many New Jersey gross income taxpayers will be among the 750,000 federal income taxpayers, but if New Jersey residents qualify in the same proportion as all other federal taxpayers, it would be expected that about 24,500 New Jersey residents would qualify for federal benefits and therefore for New Jersey income tax benefits.

However, this does not lead to any definite conclusions about the State revenue impact of the bill. Some taxpayers already have tax-excluded health plans, and the conversion to use of medical savings accounts by their employers could reduce business expenditures without any reduction in gross income tax revenue. At the extreme, if every one of 24,500 taxpayers changed health plans to defer \$3,750, then the revenue impact might be a gross income tax loss of as much as \$3 million for that year; however data suggest only some of the taxpayers using medical savings accounts will actually reduce their taxable income, and those who do reduce taxable income will select salary reductions in the range of \$1,000 to \$2,000 annually. Therefore, the expected revenue impact is a small reduction in gross income tax revenues, of unknown magnitude but probably substantially less than the \$3 million maximum.