

# SENATE HEALTH COMMITTEE

## STATEMENT TO

ASSEMBLY COMMITTEE SUBSTITUTE FOR

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

with committee amendments

# STATE OF NEW JERSEY

DATED: DECEMBER 11, 1997

The Senate Health Committee reports favorably and with committee amendments the Assembly Committee Substitute for Assembly Committee Substitute for Assembly Bill Nos.671 and 495.

As amended by committee, this substitute establishes State 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 Accountability Act of 1996," Pub.L.104-191. The substitute also requires the New Jersey Individual Health Coverage Program Board to adopt modifications to one or more plans as the boards determine are necessary to make available "high deductible health plans" consistent with the federally qualified medical savings accounts. (P.L.1997, c.146, enacted in June 1997, includes a similar requirement for the New Jersey Small Employer Health Benefits Program Board.)

Federal law allows employees of small employers and the self-employed who are covered by a "high deductible" health plan to establish a medical savings account. 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 Funds withdrawn to pay eligible medical expenses remain excluded from taxation; funds withdrawn for other purposes are subject to federal taxation and penalties.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 exempt from federal taxation; and subjects withdrawals to State taxation if the withdrawals are subject to federal taxation.

The committee adopted technical amendments to the substitute to conform section 1, that amends the individual insurance law (N.J.S.A.17B:27A-7), to recently enacted legislation, P.L.1997, c.146, which conformed the State's insurance laws to the requirements of the federal "Health Insurance Portability and Accountability Act of 1966." Amendments also delete section 2 of the bill, which amended P.L.1992, c.162 concerning small employer plans, as that law was already amended in P.L.1997, c.146 to provide for medical savings accounts. Amendments also update the date the tax provisions shall be applicable, from taxable years beginning January 1, 1997 to taxable years beginning January 1, 1998.