SENATE BILL NO. 550

INTRODUCED BY G. HERTZ

A BILL FOR AN ACT ENTITLED: "AN ACT GENERALLY REVISING INCOME TAX LAWS; REVISING REFERENCES TO THE INDIVIDUAL INCOME TAX RATE TABLE EFFECTIVE JANUARY 1, 2024; EXTENDING THE MEDICAL SAVINGS ACCOUNT TAX DEDUCTION; CLARIFYING THE CALCULATION OF COMPOSITE TAX RETURN TAX LIABILITY; ELIMINATING THE ESTABLISHMENT OF A FIRST-TIME HOME BUYER SAVINGS ACCOUNT AFTER TAX YEAR 2023; PROVIDING THAT DIRECT PRIMARY CARE FEES AND HEALTH CARE SHARING MINISTRY EXPENSES ARE ELIGIBLE MEDICAL EXPENSES FOR MEDICAL SAVINGS ACCOUNTS; AMENDING SECTIONS 15-30-2113, 15-30-2120, 15-30-2318, 15-30-2522, 15-30-3312, 15-31-1003, 15-61-102, 15-61-202, 15-63-201, AND 50-4-107, MCA; AND PROVIDING EFFECTIVE DATES, AN APPLICABILITY DATE, AND A RETROACTIVE APPLICABILITY DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 15-30-2113, MCA, is amended to read:

"**15-30-2113. (Temporary) Determination of marital status.** For purposes of this chapter:

(1) the determination of whether an individual is married must be made as of the close of the individual's tax year, except that if the individual's spouse dies during the individual's tax year, the determination must be made as of the time of death; and

(2) an individual legally separated from the individual's spouse under a decree of divorce or of separate maintenance may not be considered as married.

15-30-2113. (Effective January 1, 2024) Determination of status -- effect of status elections. For purposes of this chapter:

(1) the determination of marital status, dependent status, status as an association, partnership, or individual, and any other status must be made as provided in the Internal Revenue Code; <u>and</u>

(2) the status that a taxpayer claims or elects in a federal income tax return with respect to the

Section 8. Section 15-61-202, MCA, is amended to read:

"~~**15-61-202. (Temporary) Tax exemption -- conditions.** (1) Except as provided in this section, the amount of principal provided for in subsection (2) contributed annually by an employee or account holder to an account and all interest or other income on that principal may be excluded from the adjusted gross income of the employee or account holder and are exempt from taxation, in accordance with 15-30-2110(2)(j), as long as the principal and interest or other income is contained within the account, distributed to an immediate family member as provided in subsection (6), or withdrawn only for payment of eligible medical expenses or for paying the expenses of administering the account. Any part of the principal or income, or both, withdrawn from an account may not be excluded under subsection (2) and this subsection if the amount is withdrawn from the account and used for a purpose other than an eligible medical expense or for paying the expenses of administering the account.~~

~~(2) (a) An employee or account holder may annually contribute not more than:~~

~~(i) $3,500 in tax year 2018;~~

~~(ii) $4,000 in tax year 2019;~~

~~(iii) an amount determined for each subsequent tax year by multiplying the amount in subsection (2)(a)(ii) by an inflation factor determined by dividing the consumer price index for June of the previous tax year by the consumer price index for June 2018 and rounding the resulting figure to the nearest $500 increment.~~

~~(b) There is no limitation on the amount of funds and interest or other income on those funds that may be retained tax-free within an account.~~

~~(3) A deduction pursuant to 15-30-2131 is not allowed to an employee or account holder for an amount contributed to an account. An employee or account holder may not deduct pursuant to 15-30-2131 or exclude pursuant to 15-30-2110 an amount representing a loss in the value of an investment contained in an account.~~

~~(4) The transfer of money in an account owned by one employee or account holder to the account of another employee or account holder who is an immediate family member of the first employee or account holder does not subject either employee or account holder to tax liability under this section. Amounts contained~~

~~within the account of the receiving employee or account holder are subject to the requirements and limitations provided in this section.~~

~~(5) The employee or account holder who establishes the account is the owner of the account. An employee or account holder may withdraw money in an account and deposit the money in another account with a different or with the same account administrator without incurring tax liability.~~

~~(6) Within 30 days of being furnished proof of the death of the employee or account holder, the account administrator shall distribute the principal and accumulated interest or other income in the account to the estate of the employee or account holder or to a designated pay-on-death beneficiary as provided in 72-6-223. An immediate family member who receives the distribution provided for in this subsection becomes the account holder and may:~~

~~(a) within 1 year of the death of the employee or account holder from which the account was inherited, withdraw funds for eligible medical expenses incurred by the deceased; and~~

~~(b) contribute to the account, retain money in the account tax-free, and withdraw funds from the account as provided in this chapter.~~

15-61-202. ~~**(Effective January 1, 2024)**~~ **Tax exemption -- conditions.** (1) Except as provided in this section, the amount of principal provided for in subsection (2) contributed annually by an employee or account holder to an account and all interest or other income on the principal ~~that was contributed to a medical care savings account prior to January 1, 2024,~~ may be excluded from the Montana taxable income of the employee or account holder and is exempt from taxation, in accordance with 15-30-2120, as long as the principal and interest or other income is contained within the account, distributed to an immediate family member as provided in subsection ~~(6)~~ (5), or withdrawn only for payment of eligible medical expenses or for paying the expenses of administering the account. Any part of the principal or income, or both, withdrawn from an account may not be excluded under subsection (2) and this subsection if the amount is withdrawn from the account and used for a purpose other than an eligible medical expense or for paying the expenses of administering the account.

~~(2) For contributions that were made prior to January 1, 2024, there is no limitation on the amount of funds and interest or other income on those funds that may be retained tax-free within an account.~~

(2) (a) An employee or account holder may annually contribute not more than:

(i) $4,500 in tax year ~~2024~~ 2023; and

(ii) an amount determined for each subsequent tax year by multiplying the amount in subsection (2)(a)(i) by an inflation factor determined by dividing the consumer price index fund for June of the previous tax year by the consumer price index for June ~~2023~~ 2018 and rounding the resulting figure to the nearest ~~$100~~ $500 increment.

(b) There is no limitation on the amount of funds and interest or other income on those funds that may be retained tax-free within an account.

(3) The transfer of money in an account owned by one employee or account holder to the account of another employee or account holder who is an immediate family member of the first employee or account holder does not subject either employee or account holder to tax liability under this section. Amounts contained within the account of the receiving employee or account holder are subject to the requirements and limitations provided in this section.

(4) The employee or account holder who establishes the account is the owner of the account. An employee or account holder may withdraw money in an account and deposit the money in another account with a different or with the same account administrator without incurring tax liability.

(5) Within 30 days of being furnished proof of the death of the employee or account holder, the account administrator shall distribute the principal and accumulated interest or other income in the account to the estate of the employee or account holder or to a designated pay-on-death beneficiary as provided in 72-6-223. An immediate family member who receives the distribution provided for in this subsection becomes the account holder and may:

(a) within 1 year of the death of the employee or account holder from which the account was inherited, withdraw funds for eligible medical expenses incurred by the deceased; and

(b) CONTRIBUTE TO THE ACCOUNT, retain money in the account tax-free, and withdraw funds from the account as provided in this chapter."

Section 9. Section 15-63-201, MCA, is amended to read:

"**15-63-201. Establishment of account.** ~~A~~ Prior to January 1, 2024, a first-time home buyer who is a