

Montana Medical Care Savings Accounts

MontGuide
199817 HR



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What is an MSA?

- An account that can be used for paying eligible medical expenses that are not covered by:
 - Health insurance policy
 - Flexible spending plan (FSA)
 - Health Care Savings Account (HSA)



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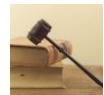
Montana MSA 2019

- **\$4,000** maximum per year
- **\$8,000** married couple



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MSA Rules



- Must be separate from other accounts
- Joint accounts for MSAs not allowed

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MSA reduces income for Montana tax purposes

- Contributions:
 - Reduce Montana income by **amount contributed**



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Tax Savings

- Depends on your **Montana** Income Tax Bracket



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No Tax Savings

- At the **Federal** Level
- A Montana MSA can not be used to reduce federal income

Tax Brackets & Rates Montana- 2018

At Least	But less Than	Then your tax is:
\$0	\$3,000	1%
\$3,000	\$5,200	2%
\$5,200	\$8,000	3%
\$8,000	\$10,800	4%
\$10,800	\$13,900	5%
\$13,900	\$17,900	6%
\$17,900 or more		6.9%

MT Tax Savings with MSA vs Regular Savings Account Deposit: \$4,000

- Taxable Income more than \$17,900 (6.9% tax bracket)

Savings		MSA	
Savings Deposit	\$4,000	Savings Deposit	\$4,000
Interest Rate:	x .0002	Tax Bracket:	x .069
Earnings		Tax Savings:	
\$8		\$276	

Interest earnings

- Not subject to Montana income taxation if:
 - Left in the account
 - Withdrawn for eligible medical care expenses



What are eligible medical expenses?

- Montana accepts any health care expense allowed as a deduction on federal income tax return as "eligible expenses"
- **IRS Publication 502**



Eligible MSA Expenses

- Prescribed drugs
- Insulin
- Dental care



Eligible MSA Expenses

- Eyeglasses
- Crutches
- Hearing Aids



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Medicare Part A

- **Not** an eligible medical expense
 - Because it was a payroll tax
 - Covered by Social Security



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Medicare Parts B & D



- **Yes, are eligible MSA medical expenses**

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Whose medical expenses are eligible?

- Owner of an account
- **And, anyone else!!!!**



Minor Child

- **Cannot establish MSA for:**
 - Minor child under age 18



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Parents' MSAs

- **May be used for minor child's eligible medical expenses**



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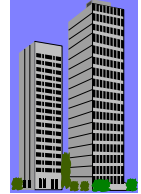
Where to establish MSA accounts?

- Bank
- Savings Bank
- Credit Union



Where to establish MSA accounts?

- Trust company
- Mutual fund company
- Brokerage firm



Caution



- Minimum Balance?
 - May range from \$20 to \$1,000
- Fees? \$2.50
 - For monthly withdrawals that exceed a certain number
 - Example 6

MSA & Death

- Can be used for deceased's medical expenses for up to a year



MSA & Death

- An MSA can be one of ***Your Legacies...***



Family Legacy

- Spouse
- Child
- Parents



POD or TOD MSA to:



- **Non-profits**
 - University of Montana Foundation
 - Montana State University Foundation
 - Montana 4-H Foundation

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Who can administer my MSA?



- **You can**
 - Self-administered account
 - Almost **all** MSAs are self-administered
- **Someone you pay**
 - Registered Account Administrator

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What if I need money for non-eligible expenses?

- **Considered *non-eligible withdrawal*:**
 - Subject to 10% penalty
 - Withdrawal counted as income in Montana
 - Unless withdrawn on last business day of the year



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Example: Duane



- **Withdraws \$6,000 to buy car in July 2019**

Adjusted Income	\$ 40,000
MSA Withdrawal	+ 6,000
Taxable Income	\$ 46,000

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Example: Duane makes non-eligible withdrawal



Increased Montana Taxes (\$6,000 x 6.9%)	\$ 414
10% Penalty	+ <u>600</u>

Total Cost of Withdrawal: \$1,014

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No 10% Penalty



1. **If non-eligible withdrawal made on last business weekday of December**
 - Amount included as income, however

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No 10% Penalty



2. Withdrawal due to death of account holder

- Amount included in decedent's income in year died, unless POD spouse or lineal descendant

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No 10% Penalty



3. Direct transfer to another MSA with different financial institution

- Caution, wire transfer fees \$25 to each institution

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No 10% Penalty



4. Direct transfer from one type of savings account to another within the financial institution:

- Example: MSA savings account to MSA CD

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Reporting 10% Penalty

• Withdrawals (not for eligible medical care expenses)

▪ Reported

- Form 2 on page 4



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Dept of Revenue Rule

- Withdrawal for medical expenses **paid** in prior year
 - Must be made by January 15



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What happens to my MSA when I die?



• Balance passes by:

- POD Beneficiary Designation
- Written Will
- Montana Intestacy Statutes
 - Dying Without a Will

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Income tax savings to Beneficiaries



• **POD to Spouse & Lineal Descendants**

- Money can pass to their MSAs without being subject to Montana income taxation

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What if I become incapacitated?



- Funds can be withdrawn by:
 - Person holding Power of Attorney (agent)
 - Person named as Conservator by district court

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What happens if I move to another state?



- **Unused MSA Funds**
 - Counted as Income on final Montana Income Tax Return

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Planning Technique



- Track medical expenses January - December
- Deposit from savings to MSA the amount of eligible medical care expenses for the year

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Planning Technique



- Withdraw from MSA total amount needed for eligible medical care expenses during year
 - One withdrawal
- Deposit back to savings after January 1 of next year

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MSA Reporting Requirements



- **File Form 2:**
 - Page 4 in 2018
 - Department of Revenue Forms
- www.revenue.mt.gov

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Percent of Montanans with MSAs

- **Only 1.4%**
- **Why?**



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MSU Extension MontGuide

- **Montana Medical Care Savings Accounts (MSAs)**



- **MT19981747HR**

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