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)

Montana MSA 2019
• $4,000 maximum per year
• $8,000 married couple

MSA Rules
• Must be separate from other accounts
• Joint accounts for MSAs not allowed

MSA reduces income for Montana tax purposes
• Contributions:
  ▪ Reduce Montana income by amount contributed

Tax Savings
• Depends on your Montana Income Tax Bracket
No Tax Savings

• At the Federal Level
• A Montana MSA cannot be used to reduce federal income

Tax Brackets & Rates Montana- 2018

<table>
<thead>
<tr>
<th>At Least</th>
<th>But less Than</th>
<th>Then your tax is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>$3,000</td>
<td>1%</td>
</tr>
<tr>
<td>$3,000</td>
<td>$5,200</td>
<td>2%</td>
</tr>
<tr>
<td>$5,200</td>
<td>$8,000</td>
<td>3%</td>
</tr>
<tr>
<td>$8,000</td>
<td>$10,800</td>
<td>4%</td>
</tr>
<tr>
<td>$10,800</td>
<td>$13,900</td>
<td>5%</td>
</tr>
<tr>
<td>$13,900</td>
<td>$17,900</td>
<td>6%</td>
</tr>
<tr>
<td>$17,900  or more</td>
<td>6.9%</td>
<td></td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th>Savings Deposit</th>
<th>MSA</th>
</tr>
</thead>
<tbody>
<tr>
<td>$4,000</td>
<td></td>
</tr>
<tr>
<td>Interest Rate:</td>
<td>x .002</td>
</tr>
<tr>
<td>Earnings</td>
<td>$8</td>
</tr>
<tr>
<td>Savings Deposit</td>
<td>$4,000</td>
</tr>
<tr>
<td>Tax Bracket:</td>
<td>x .069</td>
</tr>
<tr>
<td>Tax Savings:</td>
<td>$276</td>
</tr>
</tbody>
</table>

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  - Withdrawn for eligible medical care expenses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

**Medicare Part A**

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

**Medicare Parts B & D**

- Yes, are eligible MSA medical expenses

**Whose medical expenses are eligible?**

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

**Minor Child**

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

**Parents’ MSAs**

- May be used for minor child’s eligible medical expenses
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

Who can administer my MSA?

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

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

Example: Duane

• Withdraws $6,000 to buy car in July 2019

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

Example: Duane makes non-eligible withdrawal

Increased Montana Taxes ($6,000 x 6.9%) $ 414
10% Penalty + 600

Total Cost of Withdrawal: $1,014

No 10% Penalty

1. If non-eligible withdrawal made on last business weekday of December

  • Amount included as income, however
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

No 10% Penalty

3. Direct transfer to another MSA with different financial institution
   • Caution, wire transfer fees $25 to each institution

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

Reporting 10% Penalty

• Withdrawals (not for eligible medical care expenses)
  ▪ Reported
     Form 2 on page 4

Dept of Revenue Rule

• Withdrawal for medical expenses paid in prior year
  ▪ Must be made by January 15

What happens to my MSA when I die?

• Balance passes by:
  ▪ POD Beneficiary Designation
  ▪ Written Will
  ▪ Montana Intestacy Statutes
   Dying Without a Will
Income tax savings to Beneficiaries

- POD to Spouse & Lineal Descendants
  - Money can pass to their MSAs without being subject to Montana income taxation

What if I become incapacitated?

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

What happens if I move to another state?

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

Planning Technique

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

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

MSA Reporting Requirements

- File Form 2:
  - Page 4 in 2018
  - Department of Revenue Forms
    www.revenue.mt.gov
Percent of Montanans with MSAs

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

MSU Extension MontGuide

- Montana Medical Care Savings Accounts (MSAs)
- **MT19981747HR**