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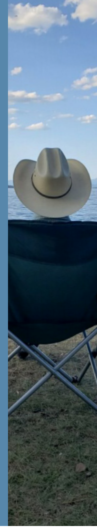
MontGuide



Patti Goroski

FAMILY FINANCIAL MANAGEMENT

MT199817HR, REVISED 07/25

Montana Medical Care Savings Accounts (MSAs) for the 2025 Tax Year

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The Montana Medical Care Savings Account Act (MSAs) allows Montanans to save money for eligible medical expenses, health insurance premiums, and long-term health care while reducing their state income taxes. This MontGuide provides answers to common questions Montanans have asked about MSAs.

WHILE THE TERM "MEDICAL CARE SAVINGS ACCOUNT" implies a savings account, a checking account or certificate of deposit is also allowed. Other options include stocks, bonds, and mutual funds. Individuals should consider how liquid the account is when they expect to need it for eligible medical expenses (listed on page 2). For example, most people would not want to sell their mutual funds when the market is down to pay for medical expenses.

An MSA must be separate from other accounts and only the account holder can have access to the funds. **Joint accounts for MSAs are not allowed.** Spouses must set up separate MSAs. The money deposited in an MSA is **not** subject to Montana income taxation while in the account or if used for **eligible medical expenses** (see page 2 for examples) for the account holder or anyone else the account owner chooses. Medical providers do not need to be paid directly from the account, but supporting documentation of medical expenses and payment is required of the MSA account holder.

Who is eligible to open an MSA account?

All resident taxpayers aged 18 and older are eligible to set up an MSA even if they have another health care plan provided by their employer, a Section 125 Flexible Spending Account (FSA), or a Federal Health Savings Account (HSA). A taxpayer does not have to be in a "high deductible" health insurance plan to be eligible for an MSA as they do for the federal HSA. An MSA cannot be set up for a minor child under age 18. However, parents can use their MSAs to pay for eligible medical expenses for a minor child, as well as children over the age of 18.

Who can use funds from an MSA?

Formerly, funds in an MSA could only be used for eligible medical expenses for the account holder or their parents, spouse, and children. As of January 1, 2018, money in an MSA can be used to pay eligible medical care expenses for **anyone** the account holder chooses.

What is the limit on a yearly contribution to an MSA?

The maximum amount a Montana resident can contribute to an MSA is $4,600 during 2025. **Montana has no limitation on the amount of funds and interest that may be accumulated tax-free within an MSA.**

The amount deposited to an MSA account reduces the account holder's income as reported on the Montana tax form resulting in a lower Montana income tax. The contribution limit for 2026 will be calculated by the Department of Revenue (DOR) and made available after January 1, 2026.

A person can also put less than the limit of $4,600 in an MSA. If the money is left in the MSA (or withdrawn for eligible medical expenses), the amount is not subject to state income taxation. **The amount used to reduce income for Montana income tax purposes is the total amount deposited in the MSA during the tax year – not the amount withdrawn for eligible medical expenses**. A similar reduction in income, however, is not allowed for federal income tax purposes.

> **Example (single person):** Barbara, a county employee, set up an MSA at a local bank and deposited $4,600 in the account on January 31, 2025. During the year, she had $2,500 in eligible medical expenses. On Barbara's Montana Individual Income Tax Return, her taxable income of $59,000 is reduced by her $4,600 MSA contribution, not the $2,500 she withdrew for eligible medical expenses.
>
> The remaining $2,100 in Barbara's MSA will continue to earn interest and is available to be withdrawn for eligible

Note: All examples within this MontGuide use the MSA limit for the 2025 tax year of $4,600.

medical expenses in future years. Barbara cannot use the remaining $2,100 as a reduction of income in a future tax year. Her Montana taxable income for the present tax year is $54,400 ($59,000 – $4,600 = $54,400). Her Montana income tax will be based on $54,400, less allowable deductions. Barbara's federal income tax will be computed on her federal adjusted gross income of $59,000, minus any allowable deductions.

What medical expenses are eligible for a withdrawal from an MSA?

Money withdrawn from an MSA is **not** subject to Montana income tax if used for either of the following two basic purposes of paying medical expenses or buying long-term care:

1. **Paying eligible medical expenses of the account holder or anyone the person chooses.**

   The Montana Department of Revenue accepts eligible medical expenses as defined under the Internal Revenue Code Section 213 (d). These are the same expenses that are allowed as itemized deductions for federal income tax purposes, such as (but not limited to):

- Medical insurance premiums
- Medicare A premiums: If a person is not covered under Social Security (or were not a government employee who paid Medicare tax) and they voluntarily enroll in Medicare A, the premiums paid for Medicare A are eligible medical expenses for an MSA.
- Medicare B premiums
- Medicare D premiums
- Medigap insurance premiums
- Prescription drugs
- Insulin
- Medical and dental expenses
- Nursing care
- Eyeglasses and contact lenses
- Crutches
- Hearing aids
- Transportation for medical care
- Allowable lodging expenses
- Deductible amount and co-payments not covered by other types of health insurance.
- Face masks and other personal protective equipment to prevent the spread of COVID-19.

A more detailed list of eligible medical expenses for a MSA is available in IRS Publication 502, "Medical and Dental Expenses." The publication may be printed from the IRS website at irs.gov/pub/irs-pdf/p502.pdf. Each account holder must keep documentation of eligible medical care expenses for a minimum of three years from the date the account holder filed a Montana income tax return for the year the expenses were incurred.

In addition to the items allowable for a federal itemized deduction, MSA funds can also be used for the following expenses:

- Family leave expenses. A family leave expense includes:
  - premiums paid for family leave insurance
  - the amount of wages lost while caring for a family member under the federal Family and Medical Leave Act (FMLA). The wage expense is calculated by multiplying the hourly wage the caregiver would have been paid by the number of hours typically spent working but were instead used for caring for a parent, spouse, or children.
- Any fees associated with a direct patient care agreement.
- Healthcare sharing ministry payments. The ministry must be considered a healthcare-sharing ministry under Montana law.

2. **Purchasing long-term care insurance or a long-term care annuity for the long-term care of the MSA holder or anyone chosen.**

- The Montana Department of Revenue accepts the purchase of long-term care insurance as an eligible medical expense for the account holder or for anyone else the account holder chooses.
- The purchase of a long-term care annuity is also an eligible medical expense for the MSA holder or anyone the person chooses.

What expenses are not eligible for a withdrawal from an MSA?

Money held in an MSA may not be used to pay medical expenses that have already been reimbursed under another type of insurance coverage.

Example (single family): Amy set up an MSA at a local credit union and deposited $4,600 in the account on January 10, 2025. During the year, she had medical expenses of $1,400. Her insurance covered 40 percent of medical expenses ($1,400 x 0.40 = $560). The amount not covered by insurance was $840 ($1,400 – $560 = $840).

She decided to use her MSA to pay for the balance of $840 in medical expenses. Amy now has $3,760 left in her MSA to carry over to the 2026 tax year ($4,600 – $840 = $3,760).

On the 2025 Montana tax return Amy reduces her income by $4,600, the total amount she deposited in her MSA. In 2026, Amy did not deposit any money into her MSA, since she believed the $3,760 in the MSA would cover any added medical expenses not covered by insurance in 2026. Because Amy did not deposit any money to her MSA in 2026, she does not receive an MSA reduction of income on her 2026 Montana income tax return.

Other types of reimbursable items that do not qualify as eligible medical expenses under the MSA law include medical expenses payable under an automobile insurance policy; workers' compensation insurance policy or a self-insured plan; federal HSA payment; Section 125 (Flexible Spending Account FSA) or medical expenses covered under a health coverage policy, certificate, or contract.

For a list of **ineligible** medical expenses for an MSA, see IRS Publication 502 "Medical and Dental Expenses." The publication can be printed from the IRS website at irs.gov/pub/irs-pdf/p502.pdf.

How much will a Montanan save on state income taxes by depositing money in an MSA?

A Montana taxpayer's taxable income is reduced by the amount annually deposited to the MSA. The maximum amount can be up to $4,600 for single filers and up to $9,200 total for married couples (2025). As a result of a reduction in income, there is a reduction in the Montana income tax due. The amount of reduction in Montana income tax depends on the account holder's tax rate. For information about Montana tax rates, go to revenue.mt.gov/taxes/montana-tax-tables-and-deductions.

To figure out approximately how much a person's Montana income tax would be reduced, multiply the amount deposited to an MSA by the tax rate for taxable income. For example, in 2025, a Montanan using the single filing status with a taxable income of more than $31,700 had a 5.9 percent income tax rate. For a married couple with an income of more than $42,200, the rate is also 5.9 percent. Eligible medical expenses paid with MSA funds cannot be deducted elsewhere on the Montana income tax return.

Example (married couple): Sheila and Rob, owners of a downtown business, deposited $4,600 each with a mutual fund company as their MSA in March 2025. Their deposits lowered their 2025 Montana taxable income by $9,200. They have a 5.9 percent Montana state income tax rate. Their MSA deposits saved Sheila and Rob approximately $543 in Montana income taxes for the 2025 tax year ($9,200 x .059 = $543).

How much will a person save on federal income taxes by depositing money in an MSA?

Nothing. The amount deposited to an MSA is not eligible for a reduction in income on the federal tax return. If a person has medical expenses exceeding 7.5 percent of federal adjusted gross income in 2025 and the person itemizes using Schedule A, the amount above the 7.5 percent can be deducted.

With the federal standard deduction for single taxpayers and married individuals filing separately is $15,000 (2025), and for married couples filing jointly at $30,000, few Montanans will have enough itemized expenses to benefit from the deduction. The tax policy center found that typically, only 11 percent of people with incomes between $50,000 and $100,000 itemize their deductions.

Example (married couple): Ben and Bethany have an adjusted gross income of $55,000. Any medical expenses they could deduct on their federal return in 2025 must be above $4,125 ($55,000 income x 0.075 = $4,125). Because their medical expenses that were not covered by health insurance only total $3,100, they are not allowed a medical deduction on their federal return. Because Ben and Bethany set up MSAs in 2025 with a contribution of $4,600 each, they can reduce their Montana taxable income by $9,200 even though their withdrawals for eligible medical expenses totaled $3,100.

How much interest will an MSA earn?

Money in an MSA earns interest like funds deposited in other savings, checking, and investment accounts at financial institutions. The rate of interest is decided by the financial institution where the MSA is set up. Interest earned or the investment gained on an MSA is not subject to Montana income tax if left in the account or if withdrawn for eligible medical expenses. MSA earnings (interest and dividends), however, must be declared on the Federal income tax return.

If a person has an FSA or an HSA, can they have an MSA?

Yes. An MSA is not like the federal medical care flexible spending account (FSA) offered by some employers or the Health Savings Account (HSA) that is deducted from federal adjusted gross income. The amount placed in a federal HSA can be used to reduce both an individual's state and federal income. The eligibility requirements are outlined in detail in the MSU Extension MontGuide online *"Health Savings Accounts"* (MT200704HR), store.msuextension.org/Products/Health-Savings-Accounts-(HSAs)-MT200704HR__MT200704HR.aspx, or available from a local MSU Extension office.

The amount placed in an FSA can also be used to reduce an individual's state and federal income. The challenge facing Montanans is they must typically decide a year ahead of time how much they expect to pay in medical expenses during the next year that will not be covered by their health insurance policy. Any amount not used during the year is forfeited. The "use it or lose it" phrase is often used to describe FSAs. However, a recent change in Federal regulations allows for up to $640 in an FSA to be rolled over to the next year (2025).

The amount placed in an MSA, up to the annual limit of $4,600, can only be used to reduce Montana income taxes, not federal income taxes.

Example (single person): Becky decided to set aside $200 per month ($2,400 during the year) in her FSA. She had used all $2,400 by July because of uncovered physical therapy expenses. From July to December, she had another $4,600 in eligible medical expenses. She opened an MSA to cover those expenses and was able to reduce her Montana income by a total of $7,000. Becky's federal income was reduced by the $2,400 that was set aside in her FSA, with a resulting $544 in federal income tax savings. Becky's Montana income was reduced by the $4,600 deposited in her MSA for Montana income tax savings of $413 ($2,400 FSA + $4,600 MSA = $7,000 x 0.059 = $413). Total state and federal income tax savings were $957 ($544 federal + $413 Montana = $957).

How is an MSA reported on a Montana tax return?

MSA earnings are reported using figures from the financial institution's 1099 form sent to the account holder and to the Internal Revenue Service (IRS). Financial institutions typically send a 1099 form listing the number for each account and interest earned.

Closely examine the 1099 report to deduct only the correct amount on the MSA earnings on the Montana Medical Care Savings Account Schedule. If the interest is less than $10, a 1099 form is not required to be sent to the depositor, so a person may need to refer to a past report on interest gained. ALL MSA interest and investment gains must be declared on a federal income tax return.

The total amount contributed to an MSA deposit (up to $4,600 for an individual) during 2025 is entered as an adjustment on the Montana Individual Income Tax Return.

Example: On Form 2, Schedule 1 below for the year 2024, the amount deposited in an MSA between January 1 and December 31, 2024, was entered on line 16 (this line number could change from year to year). At the bottom of Schedule 1 is Part II of the MSA Adjustment (**Figure 1**). On it, the beginning balance of the MSA is entered on line 1, and the ending balance on line 4.

Who administers an MSA?

Montana law provides that an MSA can be administered by the individual account holder (self-administered), or a registered account administrator. Regardless of the type of administration selected, the account holder must keep documentation to verify MSA funds are used exclusively for eligible medical expenses.

Part II: Montana Medical Savings Account (MSA) Adjustment

Subtraction			
1	Beginning balance. If this is a new account, enter 0	1	00
2	Total contributions for the year (up to $4,500 per taxpayer)	2	00
3	Earnings from the account: interest, dividends, capital gains, etc. ☐ Mark this box if your account balance is less than your beginning balance (See instructions)	3	00
4	Add lines 2 and 3. Enter the total on Part I, line 16	4	00
Addition			
5	Total withdrawals made during the year	5	00
6	Withdrawals for eligible expenses. (See instructions)	6	00
7	**Nonqualified withdrawals**. Subtract line 6 from line 5. Enter the total on Part I, line 3	7	00
8	Nonqualified withdrawals not subject to the 10% (0.10) penalty (See instructions)	8	00
9	Nonqualified withdrawals subject to penalty. Subtract line 8 from line 7	9	00

Figure 1. Montana Medical Savings Account (MSA) Schedule (2024) (may change in 2025).

SELF-ADMINISTERED ACCOUNT HOLDERS

Most MSAs are self-administered. The MSA may be set up with a financial or other approved institution (e.g., banks, credit unions, mutual fund companies, brokerage firms). A self-administered MSA must be kept separate from all other accounts. The account must be kept specifically for eligible medical expenses for the individual account holder or anyone the account holder chooses.

A self-administered account holder must fill out the Montana Medical Care Savings Account (MSA) Adjustment Subtraction of Part II on the Montana Individual Tax Return (available from Department of Revenue) https://revenue.mt.gov/files/Forms/Montana-Individual-Income-Tax-Return-Form-2/Form_2_2024_Schedule_I.pdf

Note: The 2025 tax form is not available from the Montana Department of Revenue as of the printing of this MontGuide.

May an employer contribute to an MSA for an employee?

Yes, an employer can contribute up to $4,600 to an employee's MSA. These contributions are considered wages to the employee but are still exempt from Montana income tax. The employee subtracts the amount of the employer's contribution on that year's Montana income tax return.

If an employer sets up an MSA for an employee, the amount is a business expense to the employer. The employer includes $4,600 as part of the employees' wages and reports the amount on their W2 form. The amount of contribution is taxable on the federal return. When the employee files a federal income tax return, the $4,600 deposit would be included as wages on their 1040 form.

> **Example:** In 2025 the Bobcat Corporation placed $4,600 in their employees' MSAs. The Bobcat Corporation includes $4,600 in each employee's W2 form for 2025. The $4,600 is also included as wages on the employees' 1040 form.

Are fees charged to set up and keep an MSA?

Maybe. Ask the institution if they have any type of maintenance or service fees for MSAs. For example, one financial institution charges a $12 fee per withdrawal after six have been made in a month. Another institution may not charge a service fee if the account holder keeps a minimum $300 balance. When the account drops below the $300 minimum, there is a fee of $2 for each month the balance is below the minimum. Maintenance fees are eligible expenses to withdraw from an MSA. Some institutions offer free checking for MSAs for depositors aged 50 and older.

When can withdrawals be made from an MSA without penalty?

Withdrawals can be made from an MSA account for eligible medical care expenses incurred and paid between January 1 and December 31. **An account holder has until January 15 of the next tax year to make a withdrawal for an eligible expense paid in the prior tax year.**

> **Example:** Jack broke his arm skiing on December 31, 2024. He used his credit card for the $20 co-pay. He has until January 15 of 2025 to withdraw the $20 co-payment from his MSA. When he receives the balance due after a payment is made to the hospital by his health insurance policy, he will be able to withdraw and pay the balance during 2025.

What happens to the balance of the MSA account for the next tax year?

If an account holder does not use all the money placed in an MSA during the tax year it was deposited, the funds stay in the account and roll over for use during upcoming years. Because MSAs have been available since 1997, some Montanans have over $50,000 in their MSA accounts.

The account continues to earn interest and dividends without Montana income taxation. If the funds are used for eligible medical expenses in future years, the withdrawals are not subject to Montana income taxation. In case of an audit by the Montana Department of Revenue, the account holder, not the account administrator or financial institution, has the responsibility of documenting that a withdrawal from an MSA was for eligible medical expenses.

What if I need the MSA funds for a non-medical expense?

Withdrawals from an MSA for any purpose other than eligible medical expenses are subject to a **10 percent penalty on the amount withdrawn** unless the withdrawals fall under one of four exceptions:

1. **An MSA holder can withdraw MSA money on the last business day in December,** even if the money is not used for eligible medical expenses. If the funds were excluded on a prior return, the amount withdrawn is included as ordinary income for Montana income tax purposes.

   Example: Thomas, a farmer, set up an MSA in March 2025 with $4,600. He did not have any medical expenses during the year so his $4,600 carried over to 2026. On the last business day of the year 2026, Thomas withdrew

$4,600 from his MSA to use for unexpected repairs on his combine. Because Thomas did not use the withdrawal for eligible medical care expenses, his Montana taxable income for 2026 increased by the $4,600 withdrawal from this MSA. However, Thomas did not have to pay a 10 percent penalty on the withdrawal because he withdrew $4,600 on the last business day of 2026.

2. **A withdrawal upon the death of an account holder** is not subject to the 10 percent penalty. The amount withdrawn is added to the deceased's Montana income for the tax year in which the death occurred unless the account is passed to an eligible Montana beneficiary (spouse, parents, children).
3. **A transfer of funds from one MSA to another MSA owned by the same account holder,** such as a different type of investment (from a savings account to a certificate of deposit within the same financial entity) or a different financial institution (from a savings account in a bank to a mutual fund company) is **not** considered a withdrawal and therefore is not subject to the 10 percent penalty.

   Example: Warren has an MSA at his local bank. The MSA has grown to $12,000. He has decided to transfer $9,000 to a certificate of deposit (CD) MSA at another bank so he can earn a higher rate of interest. Warren requested Bank A to issue a cashier's check made payable to Bank B for $9,000 for a CD that he designated as his MSA. If Warren had the cashier's check made out to him, the withdrawal would become taxable income at the state level. He has a remaining $3,000 balance in his MSA regular savings account.
4. **A person can be reimbursed from their MSA for eligible medical expenses paid by other methods (credit or debit card, check from another non-MSA account).** A person has until January 15 of the next year to withdraw the funds from an MSA to reimburse themselves for credit card charges or any other types of payments.

   Example: Joe has $185 per month withheld from his Social Security check for Medicare B premiums. The $185 is an eligible medical expense. Joe can subtract $2,220 as medical expenses ($185 x 12 months = $2,220). However, the MSA account must have already been set up between January 1 and December 31 of the prior year.

How is an MSA penalty reported?

Self-administered account holders who make withdrawals from an MSA that were not used to pay qualifying medical expenses must report the amount on the MSA Schedule on Form 2, Schedule IV (2024). The money withdrawn is considered ordinary income for Montana income tax purposes. Form 2, Schedule IV can be downloaded at: revenue.mt.gov/publications/montana-individual-income-tax-return-form-2.

What happens to an MSA upon the death of an account holder?

When an account holder dies, Montana law provides a legal procedure for distributing the balance in the deceased's MSA. The Personal Representative for the estate may withdraw funds for eligible medical expenses incurred by the deceased (within one year after the account holder's death). However, an MSA account cannot be opened or a deposit made in an MSA on behalf of a deceased person.

ACCOUNT ADMINISTRATOR

If the deceased person's MSA is with an account administrator, this person manages the distribution of the principal and accumulated interest in the account to the estate of the account holder or to a designated payable-on-death (POD) beneficiary or transfer-on-death registration (TOD) beneficiary. This action should be completed within 30 days of the financial entity being given proof of the account holder's death.

If there is no POD or TOD, the balance in the MSA is distributed according to the signed agreement with the estate of the deceased. The amount then passes to devisees (beneficiaries) in a written Will or to heirs under Montana's intestacy statutes. See MSU Extension MontGuide *"Dying Without a Will in Montana"* MT198908HR online, store.msuextension.org/Products/Dying-Without-a-Will-in-Montana-MT198908HR__MT198908HR.aspx or it is available from a local MSU Extension office.

SELF-ADMINISTERED ACCOUNT

An account holder can leave the balance in the MSA to anyone or to an immediate family member (parent, spouse, or child) or to a favorite non-profit or charity through a payable-on-death designation (POD) or transfer-on-death registration (TOD). These two designations allow the funds to pass directly to the beneficiary without probate.

An MSA account holder can also write a Will, leaving the account to those listed in the Will. If no Will was written or if a POD or TOD was not named, the MSA is distributed by the signed account agreement. Only parents, spouses, or children who are residents of Montana may receive the balance as an MSA to be added to their MSAs or to set up one.

The transfer must take the form of a direct transfer rather than the account holder taking the MSA cash and redepositing the amount at the new financial institution. A direct transfer can be made using an electronic bank transfer or a cashier's check payable to the institution where the new MSA has been opened. If the MSA funds are transferred into funds of a regular account, instead of an MSA, there is a loss of the state income tax benefits for the transferred MSA funds.

Beneficiaries who receive MSA funds do not include the amount as income at the state or federal levels.

> **Example:** Don named his wife as a POD beneficiary of his MSA with a balance of $7,000. After his death, his wife requested the bank make a direct transfer of the $7,000 to her MSA without the amount being considered as income to her or Don's estate for Montana income taxation purposes.

The funds from an account of a deceased account holder distributed to heirs who are **not** an immediate family member are considered nonqualified withdrawals, and the amount is recaptured on the income tax return of the estate. There is no 10 percent penalty to the estate for this non-qualified type of withdrawal.

Who are eligible beneficiaries for MSA funds?

Eligible beneficiaries include spouses, parents, and children. The recipient must be a Montana resident and receive the money in an already established MSA or in an MSA created with the transferred MSA funds. If an MSA is passed to children or parents who live in Montana, these beneficiaries are allowed to open or deposit the funds in an MSA, and there is no income tax impact.

What if beneficiaries live out of state?

If MSA funds pass to nonresident children or parents, then the amount is subject to Montana income taxes in the year the account owner died. On the decedent's income tax return, the MSA balance is declared as income.

> **Example:** Phyllis had an MSA balance of $24,000 when she died. She had a POD on the account with a balance to be divided equally among her four children. Only one daughter, Jennifer, lives in Montana. Jennifer will receive one quarter of Phyllis' MSA of $6,000. The remaining $18,000 ($24,000 – 6,000 = $18,000) is subject to Montana income taxes on Phyllis's final income tax return. Her income in the year of her death was $50,000. To that amount is added the remaining $18,000 of the MSA passing to her three out-of-state children, resulting in a total income of $68,000. She has a tax rate of 5.9 percent. The estate of Phyllis would pay an added $1,062 in Montana income tax for the MSA amount passing to her three out-of-state children ($18,000 x 0.059 = $1,062).

What happens to the balance in an MSA if a POD designation or a TOD registration for the beneficiary is not listed?

If a payable on death designation (POD) or transfer on death registration (TOD) beneficiary is not named, the money in the MSA is distributed according to the account holder's signed agreement with the financial institution, a written Will, or Montana intestacy statutes if the person has no written Will.

> **Example:** In her Will, Gayle named her three daughters in Montana as beneficiaries of her MSA with a balance of $9,000. After Gayle's death, the personal representative transferred $3,000 to each daughter's MSAs without the amount being considered income for Montana taxation purposes for Gayle's estate or her three daughters.

> **Example:** Rick, a bachelor, died without a Will. All his relatives live outside Montana. The personal representative of his estate filed a Montana Income Tax Return for Estates and Trusts (Form FID-3) and declared the $20,000 balance in Rick's MSA as income for Montana tax purposes. His estate would owe $1,180 in Montana income taxes on the $20,000 MSA.

What happens to an MSA if the owner becomes incapacitated?

If an account holder becomes incapacitated, no one can withdraw the funds unless a durable **financial power of attorney** has been given to another individual or unless a conservatorship is granted by the district court to another individual.

The financial **power of attorney (POA)** is a written document in which a person gives another person legal authority to act on their behalf for financial transactions. A POA in Montana is considered durable unless the document says otherwise. For additional information, request the MSU Extension MontGuide *"Power of Attorney (Financial)"* (MT199001HR), available from a local MSU Extension office or online at store.msuextension.org/Products/Power-of-Attorney-(financial)-MT199001HR__MT199001HR.aspx

What happens to an MSA if the account holder moves from Montana?

If an account holder moves from Montana to another state or country and has unused MSA funds, the funds are considered **non-qualified withdrawals**. The funds must be declared as income on the account holder's final Montana Income Tax Return, Form 2, Schedule 1-Adjustments.

Summary

The Montana Medical Care Savings Account Act allows resident taxpayers to set up an MSA and deposit up to $4,600 in the account during 2025. The amount for 2026 will be calculated by the Department of Revenue (DOR) and announced after January 1, 2026.

If principal and earnings are withdrawn for payment of eligible medical expenses or for long-term care of the account holder or anyone else, the amounts are excluded from the owner's Montana state income tax. The interest earnings or investment gains are subject to income taxation at the federal level. Withdrawals from an MSA for any purpose other than eligible medical expenses are treated as ordinary income in Montana and taxed accordingly. Withdrawals are subject to a 10 percent penalty unless the withdrawal falls under the rules listed on page 2.

References

Administrative Rules of Montana. Montana Administrative Register, Subchapter 42.15.602; Montana Medical Care Savings Accounts. https://rules.mt.gov/

Briefing Book, Tax Policy Center, Urban Institute & Brookings Institution, January 2024, downloaded on March 9, 2025. https://taxpolicycenter.org/briefing-book/what-are-itemized-deductions-and-who-claims-them

Montana Code Annotated 2023. Title 15 Taxation, Chapter 61, Medical Care Savings Account Part 1 and 2 https://archive.legmt.gov/bills/mca/title_0150/chapter_0610/parts_index.html

Montana Medical Care Savings Account Updated 10/28/2024 https://montana.servicenowservices.com/citizen?id=kb_article_view&sysparm_article=KB0013247

Further Information

For questions or more information about Montana Medical Savings Accounts, contact:

Montana Department of Revenue
P. O. Box 5805
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Telephone: 406-444-6900
revenue.mt.gov

Montana Individual Tax Return
revenue.mt.gov/publications/montana-individual-income-tax-return-form-2

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Acknowledgments

This MontGuide has been reviewed by representatives from the following who recommend its reading by those who want to know more about MSAs.

- Montana's Credit Unions
- Montana Department of Revenue
- Montana Independent Bankers Association

Disclaimer

This MontGuide is based on Montana law and Administrative Rules in effect as of the date of printing. The information presented is for information purposes only and should not be considered as tax or legal advice or be used as such. For answers to specific questions about MSAs, readers should confer with proper professionals (certified public accountants, attorneys, and certified financial planners).

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MT199817HR, REVISED 07/25
FAMILY FINANCIAL MANAGEMENT (RETIREMENT, SAVING AND INVESTING)