



Am. H.B. 24

127th General Assembly
(As Reported by H. Ways & Means)

Reps. Wagner, J. McGregor, Wagoner, Gibbs, Combs, Stebelton, Collier, Huffman, Blessing, Bupp, Latta, Schindel, J. Hagan, Wolpert

BILL SUMMARY

- Gives municipal corporations the option of allowing sole proprietors to take a municipal income tax deduction for amounts they pay for medical care insurance for themselves and their family members.
- Gives municipal corporations the option of allowing individuals to take a municipal income tax deduction for cash contributions to health savings accounts.

CONTENT AND OPERATION

Municipal income taxation--overview

Under the home rule powers granted by Article XVIII of the Ohio Constitution, municipal corporations may tax the incomes of individuals and businesses residing or doing business within their boundaries. Municipal corporations' taxation powers, however, are subject to limitations imposed by the General Assembly.

The General Assembly has established uniform tax bases for municipal corporations to use in computing the municipal income tax liabilities of individuals and businesses. Current law does not expressly permit municipal corporations to allow sole proprietors to claim a municipal income tax deduction for their medical care insurance premiums. Nor does current law expressly permit municipal corporations to allow an individual to deduct cash contributions to a health savings account.

Deduction for medical care insurance

(R.C. 718.01(A)(7) and (E)(3))

The municipal income tax liabilities of sole proprietors are computed on the basis of the net profit reported by a sole proprietor on Internal Revenue Service Schedule C, which is the form used by sole proprietors to report their profits and losses for federal income tax purposes. In calculating net profit on Schedule C, sole proprietors are permitted to deduct expenses they incur for health insurance for their employees; however, sole proprietors do not deduct on Schedule C health insurance expenses incurred on their own behalf. As a result, amounts that a sole proprietor pays for health insurance on the sole proprietor's own behalf or on behalf of the sole proprietor's family do not operate to reduce the sole proprietor's municipal income tax base.

The bill expressly permits a municipal corporation to adopt an ordinance or resolution that allows sole proprietors to deduct from the net profit reported on Schedule C the amount the sole proprietor paid during the taxable year for medical care insurance for the sole proprietor, a spouse, and dependents. The deduction would be available for the same types of medical care coverage that qualifies for the existing state income tax deduction for medical care insurance (R.C. 5747.01(A)(11)(a)--not in the bill).

The municipal income tax deduction would be reduced by the amount of any related premium refunds, related premium reimbursements, or related insurance premium dividends received by the sole proprietor during the taxable year. The exclusion of those amounts ensures that the deduction reflects the taxpayer's actual out-of-pocket insurance premium expenses.

Deduction for payments to health savings accounts

(R.C. 718.01(A)(7) and (E)(2))

The bill expressly permits a municipal corporation to adopt an ordinance or resolution allowing an individual to claim the same tax preferences for municipal income tax purposes that federal law allows for "health savings accounts" or "HSAs." Under federal law, individuals who open and hold an HSA are allowed to deduct cash contributions to the account, up to specified annual limits. Also, investment earnings on account balances are exempt from taxation unless account withdrawals are spent for something other than medical expenses. Health savings accounts may be held by any person, whether or not employed, as long as the

person is covered by a "high deductible" health plan and is not covered by Medicare or another general health plan.¹

An individual subject to the income tax of a municipal corporation that adopts an ordinance or resolution authorizing an HSA deduction would be able to deduct cash contributions to the account to the same extent contributions are deductible for federal income tax purposes. The federal tax-deductible amount is equal to the deductible under the high-deductible health plan, but is limited to a maximum annual dollar amount. The maximum annual dollar limit depends on whether the health plan covers only one person or covers two or more persons. The annual limits for 2007 are as follows:

Annual tax-deductible contribution limits for health savings accounts

<u>Health plan coverage</u>	<u>Age under 55</u>	<u>Age 55 or over</u>
Individual	\$2,850	\$3,650
Multiple	\$5,650	\$6,450

Note: Limits are adjusted annually for inflation and the limits for ages 55 and over increase by \$100 per year until 2009.

Application date

(Section 3)

The earliest taxable year for which the deductions authorized under the bill may be taken are taxable years beginning in 2007.

HISTORY

ACTION	DATE
Introduced	02-20-07
Reported, H. Ways & Means	03-22-07

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¹ To qualify as a high deductible health plan, a plan must have an annual deductible of at least \$1,100 (individual coverage) or \$2,200 (multiple coverage), and the sum of the deductible and other out-of-pocket expenses must be no more than \$5,500 (individual) or \$11,000 (multiple). Special rules apply to some plans.