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BUSINESS NOTES
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Health Savings Accounts 2003 Tax Legislation

Although the object of mixed reviews and debate, Congress recently passed the *Medicare Prescription Drug, Improvement, and Modernization Act of 2003*. Under its provisions, certain taxpayers can, through Health Savings Accounts ("HSA") address increasing medical costs on a new pre-tax basis. Specifically, those with high deductible medical insurance can fund HSA accounts with pre-tax contributions of up to $5,150 for families to cover medical costs. Under the new law, deposits into an HSA are tax deductible, while earnings and withdrawals for medical purposes are tax free. Moreover, annual balances can be rolled over, providing an investment opportunity for younger taxpayers, especially since amounts in HSAs can be withdrawn tax free at retirement. Eligibility is determined on a monthly basis, and a participating individual must only be covered by a high deductible medical plan.

To qualify as a high deductible health plan, there must be at least a $1,000 annual deductible for self-only coverage, and a $2,000 deductible for family coverage. Moreover, the yearly out of pocket costs under the health plan cannot exceed $5,000 for the self-only coverage, and no more than $10,000 for families. Such out of pocket costs include amounts, other than premiums, that must be paid for benefits, such as co-payments and deductibles.

Like medical premiums currently paid by self-employed individuals, HSA contributions are deductible in determining adjusted gross income. The contribution limitations include aggregation provisions. Moreover, there are provisions that allow individuals who are 55 years old by the end of the tax year to increase their contribution annually, with the increase capped at $1,000 for the year 2009 and thereafter. However, one drawback appears to be the prohibition on contributions after the medical plan participant retires.

The 2003 medical act also may provide administrative conveniences. For instance, if the medical services are satisfied with a credit card, employers may be exempted from providing Form 1099's to service providers. Moreover, employers that maintain retiree prescription drug coverage after the drug benefit begins in 2006 may be eligible for a 28% excludable subsidy.

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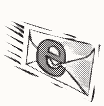

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