DESCRIPTION OF H.R. 6314, THE "HEALTH SAVINGS ACT OF 2018"

Scheduled for Markup
by the
HOUSE COMMITTEE ON WAYS AND MEANS
on July 11, 2018

Prepared by the Staff
of the
JOINT COMMITTEE ON TAXATION

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INTRODUCTION

The House Committee on Ways and Means has scheduled a markup of H.R. 6314, the "Health Savings Act of 2018," on July 11, 2018 which provides that catastrophic and bronze plans (as defined in the Patient Protection and Affordable Care Act (PPACA))[1] shall be treated as high deductible health plans. This document,[2] prepared by the staff of the Joint Committee on Taxation, provides a description of the bill.

[1] See section 1302(d)(1)(A), (d)(1)(B) and (e) of the PPACA.

[2] This document may be cited as follows: Joint Committee on Taxation, *Description of H.R. 6314, the "Health Savings Act of 2018"* (JCX-55-18), July 10, 2018. This document can also be found on the Joint Committee on Taxation website at www.jct.gov. All section references herein are to the Internal Revenue Code of 1986, as amended, unless otherwise stated.

A. Allowance of Bronze and Catastrophic Plans in Connection with Health Savings Accounts

Present Law

Health savings accounts

An individual may establish a health savings account ("HSA") only if the individual is covered under a plan that meets the requirements for a high deductible health plan, as described below. In general, HSAs provide tax-favored treatment for current medical expenses as well as the ability to save on a tax-favored basis for future medical expenses. In general, an HSA is a tax-exempt trust or custodial account created exclusively to pay for the qualified medical expenses of the account holder and his or her spouse and dependents.

Within limits,[3] contributions to an HSA made by or on behalf of an eligible individual are deductible by the individual. Contributions to an HSA are excludible from income and employment taxes if made by the employer. Earnings in HSAs are not taxable. Distributions from an HSA for qualified medical expenses are not includible in gross income. Distributions from an HSA that are not used for qualified medical expenses are includible in gross income and are subject to an additional tax of 20 percent. The 20-percent additional tax does not apply if the distribution is made after death or disability, or after the individual attains the age of Medicare eligibility (age 65).

High deductible health plans

A high deductible health plan is a health plan that has a minimum annual deductible of $1,350 (for 2018) for self-only coverage and twice this amount for family coverage, and for which the sum of the annual deductible and other annual out-of-pocket expenses (other than premiums) for covered benefits does not exceed $6,650 (for 2018) for self-only coverage and twice this amount for family coverage.[4] These dollar thresholds are subject to inflation adjustment, based on chained CPI.[5]

An individual who is covered under a high deductible health plan is eligible to establish an HSA, provided that while such individual is covered under the high deductible health plan, the individual is not covered under any health plan that (1) is not a high deductible health plan

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[3] For 2018, the basic limit on annual contributions that can be made to an HSA is $3,450 in the case of self-only coverage and $6,900 in the case of family coverage. (The 2018 limitation for family coverage was revised by the IRS to permit taxpayers to disregard the $6,850 limitation under the modified inflation adjustment of Pub. L. No. 115-97. Rev. Rul. 2018-27, 2018-20 I.R.B. 591, May 14, 2018.) The basic annual contributions limits are increased by $1,000 for individuals who have attained age 55 by the end of the taxable year (referred to as "catch-up" contributions).

[4] Sec. 223(c)(2).

[5] Sec. 223(g).

and (2) provides coverage for any benefit (subject to certain exceptions) covered under the high deductible health plan.[6]

Various types of coverage are disregarded for this purpose, including coverage of any benefit provided by permitted insurance, coverage (whether through insurance or otherwise) for accidents, disability, dental care, vision care, or long-term care, as well as certain limited coverage through health flexible savings accounts.[7] Permitted insurance means insurance under which substantially all of the coverage provided relates to liabilities incurred under workers' compensation laws, tort liabilities, liabilities relating to ownership or use of property, or such other similar liabilities as specified by the Secretary under regulations. Permitted insurance also means insurance for a specified disease or illness, and insurance paying a fixed amount per day (or other period) of hospitalization.[8]

Plans in the Health Benefit Exchanges[9] are defined by reference to various metal categories including bronze and silver plans.[10] Catastrophic plans[11] have low monthly premiums and very high deductibles and are only available to individuals under 30 or individuals of any age with a hardship exemption. Currently catastrophic and bronze plans as defined under the PPACA are not treated as high deductible health plans.

Description of Proposal

Under the proposal, the term high deductible health plan shall include bronze and catastrophic plans[12] but the special rules for network plans (with respect to the annual out-of-pocket limitation and annual deductible) and the safe harbor for the absence of a preventive care deductible (that would otherwise apply to high deductible health plans) will not apply.

Effective Date

The provision is applies to months beginning after December 31, 2018, in taxable years ending after that date.

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[6] Sec. 223(c)(1).

[7] Sec. 223(c)(1)(B).

[8] Sec. 223(c)(3).

[9] See secs. 1311 and 1321 of PPACA.

[10] See sec. 1302 of PPACA.

[11] See sec. 1302(e) of PPACA.

[12] See sec. 1302(d)(1)(A) and (e) of PPACA.