HOUSE RESEARCH

Bill Summary

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Subject: Long-term care savings plan

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Overview

Creates a Minnesota long-term care savings plan modeled on a plan in place in Nebraska. Allows individuals to subtract from taxable income up to $2,000 of annual contributions to plan accounts ($4,000 for married joint filers), and exempts account earnings from the state income tax. Requires distributions from plans to be used for payment of long-term care expenses or long-term care insurance premiums. Imposes a 10 percent penalty on nonqualifying uses.

Section

1 **Long-term care savings plan.**

Subd. 1. Definitions. Provides definitions necessary for administering the proposed long-term care savings plan.

"Long-term care expense" means expenses for care in a facility or in the care recipient's home.

"Long-term care insurance premiums" means amounts paid for long-term care insurance. Long-term care insurance is defined by cross reference to the types of insurance that qualify for Minnesota's tax credit for that insurance.

"Participant" means an individual who has entered into a long-term care savings plan participation agreement, as provided in subdivision 2.

"Qualified individual" means a person who incurred long-term care expenses or who was at least 50 years old and paid long-term care insurance premiums.

Subd. 2. Participation agreement. Establishes the Minnesota long-term care savings plan, to be administered by the commissioner of finance (Minnesota

Management and Budget). Directs the commissioner to select a plan administrator in response to a request for proposals, and if there are no applicants to enter into one or more agreements with financial institutions to receive deposits and administer accounts. Allows plan participants to contribute up to a lifetime maximum of $175,000 to accounts, with the lifetime maximum adjusted annually for inflation. Allows accounts to be cancelled or transferred by participants to spouses under terms set by the commissioner. Provides that amounts contributed to accounts and earnings on accounts are exempt from state income tax as provided in sections 2 and 3, which provide that up to $4,000 of contributions are exempt each year for married joint filers ($2,000 for other filers), and that distributions are only subject to tax if used for purposes other than long-term care, or if distributed as a result of the commissioner's cancellation of the plan.

Subd. 3. Long-term care savings plan trust. Creates the long-term care savings plan trust in the event the commissioner selects a plan administrator. Lays out fiduciary duties and responsibilities of the administrator and the state board of investment with regard to the trust and investment of funds.

Subd. 4. Authorized withdrawals. Authorizes qualified individuals to make withdrawals from plan accounts to pay for long-term care expenses or premiums. Imposes a 10 percent penalty on withdrawals for purposes other than payment of expenses or premiums, transfer of funds to a spouse, or on the death of the participant.

Effective the day following final enactment.

2 **Additions to taxable income; individuals.** Requires individuals to include in Minnesota taxable income amounts withdrawn from a long-term care savings plan account for purposes other than payment of expenses or premiums, transfer of funds to a spouse, or on the death of the participant. Clarifies that if the commissioner cancels the plan, amounts withdrawn as a result of the cancellation are to be included in taxable income. Effective beginning in tax year 2010.

3 **Subtractions from taxable income; individuals.** Provides that contributions to a long-term care savings plan account of up to $4,000 annually for married couples filing joint returns and up to $2,000 annually for other filers is allowed to be subtracted from Minnesota taxable income. Also provides that earnings on amounts in long-term care savings plan accounts may be subtracted from Minnesota taxable income. Effective beginning in tax year 2010.

4 **Subtractions from alternative minimum taxable income.** Provides an alternative minimum tax (AMT) subtraction equal to the long-term savings plan contribution and earnings subtraction in section 3. This prevents individuals claiming the long-term care savings plan subtractions from shifting from the regular tax to the AMT.