



## Montana Medical Care Savings Account

For more information regarding the medical care savings account, please access the website <http://www.montana.edu/wwwpb/pubs/mt9817.html>.

Montana resident taxpayers are allowed a reduction to arrive at Montana adjusted gross income for funds contributed to an account used specifically for eligible medical expenses.

A taxpayer may contribute any amount to a medical savings account (MSA). The maximum tax reduction is \$3,000 per taxpayer per tax year. Jointly held accounts do not qualify as an MSA, although each spouse, regardless of income tax filing status, may maintain a separate MSA.

In addition to deducting up to \$3,000 in contributions to a medical care savings account, interest earned on the principal amount in an account is excludable from Montana adjusted gross income. Interest on excess contributions carried over to subsequent years is not deductible until the excess contribution is considered medical care savings funds and excluded from adjusted gross income.

Any amount of monies used in the reduction of income in one year cannot be deducted again in a future year.

### Self-Administered Account Holders

The law allows taxpayers to self-administer MSAs. A self-administered individual MSA may be established with a financial or other institution. The self-administered account holder is not required to register with the department. The self-administered MSA must be kept separate from all other accounts and be maintained specifically to pay eligible medical expenses for the individual account holder, his or her spouse, and any dependents.

Self-administered account holders must file an annual report (Form MSA) with their individual income tax return.

### Eligible Medical Expenses

Eligible medical expenses are defined under Internal Revenue Code Section 213, and are the

same expenses which, if not paid with MSA funds, would be allowed as an itemized deduction for Montana income tax purposes. Within certain limitations, the contributions to an MSA will be tax free as long as the account is used to pay eligible medical expenses. The maximum reduction per year allowed per taxpayer for Montana tax purposes is \$3,000 plus any interest the account accumulates. Withdrawals made for anything other than eligible medical expenses are subject to a 10% penalty. These penalties cannot be deducted from income. Non-eligible withdrawals made on the last weekday of December are not subject to the penalty.

Any non-eligible withdrawals are taxed as ordinary income if previously deducted. Eligible medical expenses reduced under the MSA cannot be deducted elsewhere on the income tax form.

### Documentation Requirements

The account holder in all circumstances is required to maintain documentation to verify eligible medical expenses. The self-administered account holder must also maintain documentation of contribution and withdrawal amounts and dates, interest earned on the account, the year end balance and any penalties for ineligible withdrawals. Self-administered account holders must also keep copies of the financial or other institution's statements of account.