



General Assembly

Amendment

February Session, 2000

LCO No. 3044

Offered by:

REP. LOCKTON, 149th Dist.
REP. POWERS, 151st Dist.
REP. WINKLER, 41st Dist.
REP. SIMMONS, 43rd Dist.
REP. BELDEN, 113th Dist.
REP. HESS, 150th Dist.
REP. RORABACK, 64th Dist.
REP. CAFERO, 142nd Dist.
REP. FOX, 144th Dist.
REP. MORDASKY, 52nd Dist.
REP. JARMOC, 59th Dist.
REP. SAUER, 36th Dist.
REP. DEPINO, 97th Dist.

REP. FAHRBACH, 61st Dist.
REP. O'NEILL, 69th Dist.
REP. RYAN, 141st Dist.
REP. WASSERMAN, 106th Dist.
REP. METZ, 101st Dist.
REP. FARR, 19th Dist.
REP. MCDONALD, 148th Dist.
REP. WIDLITZ, 98th Dist.
REP. THOMPSON, 13th Dist.
REP. O'ROURKE, 32nd Dist.
REP. ORANGE, 48th Dist.
REP. TYMNIAK, 133rd Dist.

To: House Bill No. 5632

File No. 150

Cal. No. 157

"An Act Concerning Medical Savings Accounts."

1 After line 28 insert the following and renumber the remaining
2 section accordingly:

3 "Sec. 3. (NEW) (a) As used in this section:

4 (1) "Bank" has the meaning given to that term in 26 USC Section
5 408(n), as from time to time amended;

6 (2) "Medical individual retirement account" or "MIRA" means a trust

7 or custodial account created in this state for the purposes and in
8 accordance with the requirements set forth in this section; and

9 (3) "Person" means any individual who is a resident of this state or
10 who was a resident of this state at the time such individual created a
11 medical individual retirement account, or any beneficiary of such
12 individual under a medical individual retirement account, provided
13 such beneficiary is an individual.

14 (b) Any person may create a medical individual retirement account
15 for the exclusive benefit of such person or any other person in
16 accordance with the provisions of this section. Any such MIRA shall be
17 subject to the following requirements, which shall be clearly set forth in
18 the written instrument creating and governing such MIRA:

19 (1) Except as otherwise provided in this section, for purposes of the
20 personal income tax imposed under chapter 229 of the general statutes, a
21 MIRA shall be subject to the same treatment as an individual retirement
22 account under Section 408 of the Internal Revenue Code of 1986, or any
23 subsequent corresponding internal revenue code of the United States, as
24 from time to time amended, except that no contribution to a MIRA may
25 be deductible from gross income.

26 (2) No contribution to a MIRA may be accepted by the trustee or
27 custodian of the MIRA unless such contribution is in cash or its
28 equivalent, and such contributions shall not be accepted for any taxable
29 year in excess of four thousand dollars on behalf of any person.

30 (3) The trustee or custodian of a MIRA shall be a bank or such other
31 individual or entity that demonstrates to the satisfaction of the
32 Commissioner of Revenue Services that the manner in which such
33 individual or entity will administer the MIRA will be consistent with the
34 requirements of this section.

35 (4) No part of the funds of a MIRA may be invested in a life insurance
36 policy.

37 (5) The interest of a person in the funds of a MIRA shall be
38 nonforfeitable.

39 (6) The funds of a MIRA may not be commingled with any other
40 property, except that such funds may be invested in a common trust
41 fund or common investment fund.

42 (7) The distribution of the entire interest of a person for whose benefit
43 the MIRA is maintained shall be governed by such regulations as the
44 Commissioner of Revenue Services shall adopt in accordance with the
45 provisions of chapter 54 of the general statutes.

46 (c) The trustee or custodian of a medical individual retirement account
47 shall make such reports concerning the MIRA to the Commissioner of
48 Revenue Services and to the person for whose benefit the MIRA is
49 maintained with respect to contributions, distributions and such other
50 matters as the commissioner shall require by regulations adopted in
51 accordance with the provisions of chapter 54 of the general statutes. The
52 reports shall be filed at such time and in such manner as the
53 commissioner requires and shall be furnished to such person not later
54 than January thirty-first of the calendar year following the calendar year
55 to which such reports relate.

56 (d) Any written instrument creating and governing a medical
57 individual retirement account shall contain a conspicuous notice, in not
58 less than ten-point boldface type, stating: "NOTICE: THIS ACCOUNT
59 HAS TAX BENEFITS FOR CONNECTICUT PERSONAL INCOME TAX
60 PURPOSES ONLY. INDIVIDUALS OPENING THIS ACCOUNT ARE
61 ENCOURAGED TO CONSULT FIRST WITH AN ACCOUNTANT OR
62 OTHER FINANCIAL ADVISOR".

63 (e) Except as otherwise provided in this section, any amount paid or
64 distributed out of a medical individual retirement account shall be
65 included in the gross income of the person receiving such payment or
66 distribution for purposes of the personal income tax imposed under
67 chapter 229 of the general statutes and shall be governed by the
68 following rules, which shall be clearly set forth in the written instrument

69 creating and governing the MIRA:

70 (1) A person who is less than fifty-nine and one-half years of age may
71 withdraw any amount from a MIRA without distribution penalty if such
72 withdrawal is for the purpose of paying for catastrophic medical
73 expenses or care in a nursing home facility, as defined in section 19a-521
74 of the general statutes, or a chronic disease hospital, as defined in section
75 19a-550 of the general statutes.

76 (2) A person who is at least fifty-nine and one-half years of age but
77 less than seventy years of age may withdraw any amount from a MIRA
78 without distribution penalty if the withdrawal is for the purpose of
79 paying for (A) the costs specified in subdivision (1) of this subsection, (B)
80 medical and dental expenses, (C) long-term care, (D) a health insurance
81 policy, (E) a long-term care policy issued pursuant to title 38a of the
82 general statutes, (F) home health care, including, but not limited to,
83 community based services described in subsection (c) of section 17b-342
84 of the general statutes, or (G) prescription drugs.

85 (3) A person who is at least seventy years of age may withdraw any
86 amount from a MIRA for any reason without distribution penalty.

87 (4) If a withdrawal from a MIRA does not meet the criteria set forth in
88 subdivisions (1) to (3), inclusive, of this subsection, the trustee of the
89 MIRA shall prorate the withdrawal between previously taxed principal
90 and untaxed interest, and the amount of the interest shall be subject to a
91 ten per cent distribution penalty and shall be included in the gross
92 income of the person receiving such withdrawal in accordance with the
93 provisions of chapter 229 of the general statutes.

94 (5) Notwithstanding the provisions of this subsection, the following
95 distributions from a MIRA may be made without distribution penalty:

96 (A) Distributions to an alternate payee pursuant to a qualified
97 domestic relations order, as governed by Section 414(p)(1) of the Internal
98 Revenue Code of 1986, or any subsequent corresponding internal
99 revenue code of the United States, as from time to time amended;

100 (B) Distributions made on or after the death of the person for whose
101 benefit the MIRA is maintained that are paid to the estate or any
102 beneficiary of such person; and

103 (C) Distributions attributable to the disability of the person for whose
104 benefit the MIRA is maintained that are paid to such person. For
105 purposes of this subparagraph, a person has a disability if such person is
106 blind or physically disabled, as defined in section 1-1f of the general
107 statutes, or if such person is a mentally ill person, as defined in section
108 17a-495 of the general statutes.

109 (f) Except for a withdrawal subject to a distribution penalty under
110 subsection (e) of this section, the trustee of a medical individual
111 retirement account shall first pay any withdrawal or distribution from
112 such MIRA from contributions that were previously taxed under the
113 laws of this state. Nothing in this section shall be construed to permit
114 contributions that were previously taxed under the laws of this state to
115 be subject to a second tax under the provisions of chapter 229 of the
116 general statutes.

117 Sec. 4. Subsection (b) of section 3-57a of the general statutes is
118 repealed and the following is substituted in lieu thereof:

119 (b) With respect to any funds subject to the provisions of
120 subdivisions (1), (2) and (3) of subsection (a) of this section which are
121 held or owing for purposes of a self-employed retirement plan or an
122 individual retirement account [] established in accordance with the
123 applicable provisions of the Internal Revenue Code and federal
124 regulations related thereto, or a medical individual retirement account
125 established in accordance with section 3 of this act, such funds shall be
126 presumed abandoned in accordance with said subdivisions (1), (2) and
127 (3), provided in no event shall such presumption of abandonment be
128 applicable to such funds prior to the end of a period of six months
129 immediately following the date on which distribution of funds under
130 any such plan, to the person for whose benefit such funds have been
131 contributed, is required to commence under [said] such provisions of

132 the Internal Revenue Code and related regulations.

133 Sec. 5. Subdivision (20) of subsection (a) of section 12-701 of the
134 general statutes, as amended by section 1 of public act 99-173, is
135 repealed and the following is substituted in lieu thereof:

136 (20) "Connecticut adjusted gross income" means adjusted gross
137 income, with the following modifications: (A) There shall be added
138 thereto (i) to the extent not properly includable in gross income for
139 federal income tax purposes, any interest income from obligations
140 issued by or on behalf of any state, political subdivision thereof, or
141 public instrumentality, state or local authority, district or similar public
142 entity, exclusive of such income from obligations issued by or on
143 behalf of the state of Connecticut, any political subdivision thereof, or
144 public instrumentality, state or local authority, district or similar public
145 entity created under the laws of the state of Connecticut and exclusive
146 of any such income with respect to which taxation by any state is
147 prohibited by federal law, (ii) any exempt-interest dividends, as
148 defined in Section 852(b)(5) of the Internal Revenue Code, exclusive of
149 such exempt-interest dividends derived from obligations issued by or
150 on behalf of the state of Connecticut, any political subdivision thereof,
151 or public instrumentality, state or local authority, district or similar
152 public entity created under the laws of the state of Connecticut and
153 exclusive of such exempt-interest dividends derived from obligations,
154 the income with respect to which taxation by any state is prohibited by
155 federal law, (iii) any interest or dividend income on obligations or
156 securities of any authority, commission or instrumentality of the
157 United States which federal law exempts from federal income tax but
158 does not exempt from state income taxes, (iv) to the extent included in
159 gross income for federal income tax purposes for the taxable year, the
160 total taxable amount of a lump sum distribution for the taxable year
161 deductible from such gross income in calculating federal adjusted
162 gross income, (v) to the extent properly includable in determining the
163 net gain or loss from the sale or other disposition of capital assets for
164 federal income tax purposes, any loss from the sale or exchange of
165 obligations issued by or on behalf of the state of Connecticut, any

166 political subdivision thereof, or public instrumentality, state or local
167 authority, district or similar public entity created under the laws of the
168 state of Connecticut, in the income year such loss was recognized, (vi)
169 to the extent deductible in determining federal adjusted gross income,
170 any income taxes imposed by this state, (vii) to the extent deductible in
171 determining federal adjusted gross income, any interest on
172 indebtedness incurred or continued to purchase or carry obligations or
173 securities the interest on which is exempt from tax under this chapter
174 and (viii) expenses paid or incurred during the taxable year for the
175 production or collection of income which is exempt from taxation
176 under this chapter or the management, conservation or maintenance of
177 property held for the production of such income, and the amortizable
178 bond premium for the taxable year on any bond the interest on which
179 is exempt from tax under this chapter to the extent that such expenses
180 and premiums are deductible in determining federal adjusted gross
181 income. (B) There shall be subtracted therefrom (i) to the extent
182 properly includable in gross income for federal income tax purposes,
183 any income with respect to which taxation by any state is prohibited
184 by federal law, (ii) to the extent allowable under section 12-718, exempt
185 dividends paid by a regulated investment company, (iii) the amount of
186 any refund or credit for overpayment of income taxes imposed by this
187 state, or any other state of the United States or a political subdivision
188 thereof, or the District of Columbia or any province of Canada, to the
189 extent properly includable in gross income for federal income tax
190 purposes, (iv) to the extent properly includable in gross income for
191 federal income tax purposes, any tier 1 railroad retirement benefits, (v)
192 with respect to any natural person who is a shareholder of an S
193 corporation which is carrying on, or which has the right to carry on,
194 business in this state, as said term is used in section 12-214, the amount
195 of such shareholder's pro rata share of such corporation's
196 nonseparately computed items, as defined in Section 1366 of the
197 Internal Revenue Code, that is subject to tax under chapter 208, in
198 accordance with subsection (c) of section 12-217, as amended,
199 multiplied by such corporation's apportionment fraction, if any, as
200 determined in accordance with section 12-218, as amended, (vi) to the

201 extent properly includable in gross income for federal income tax
202 purposes, any interest income from obligations issued by or on behalf
203 of the state of Connecticut, any political subdivision thereof, or public
204 instrumentality, state or local authority, district or similar public entity
205 created under the laws of the state of Connecticut, (vii) to the extent
206 properly includable in determining the net gain or loss from the sale or
207 other disposition of capital assets for federal income tax purposes, any
208 gain from the sale or exchange of obligations issued by or on behalf of
209 the state of Connecticut, any political subdivision thereof, or public
210 instrumentality, state or local authority, district or similar public entity
211 created under the laws of the state of Connecticut, in the income year
212 such gain was recognized, (viii) any interest on indebtedness incurred
213 or continued to purchase or carry obligations or securities the interest
214 on which is subject to tax under this chapter but exempt from federal
215 income tax, to the extent that such interest on indebtedness is not
216 deductible in determining federal adjusted gross income and is
217 attributable to a trade or business carried on by such individual, (ix)
218 ordinary and necessary expenses paid or incurred during the taxable
219 year for the production or collection of income which is subject to
220 taxation under this chapter but exempt from federal income tax, or the
221 management, conservation or maintenance of property held for the
222 production of such income, and the amortizable bond premium for the
223 taxable year on any bond the interest on which is subject to tax under
224 this chapter but exempt from federal income tax, to the extent that
225 such expenses and premiums are not deductible in determining federal
226 adjusted gross income and are attributable to a trade or business
227 carried on by such individual, (x) for a person who files a return under
228 the federal income tax as an unmarried individual, or a married
229 individual filing separately whose federal adjusted gross income for
230 such taxable year is less than fifty thousand dollars and for a husband
231 and wife who file a return under federal income tax as married
232 individuals filing jointly or a person who files under federal income
233 tax as a head of household whose federal adjusted gross income for
234 such taxable year is less than sixty thousand dollars, an amount equal
235 to the Social Security benefits includable for federal income tax

236 purposes; for a person who files a return under the federal income tax
237 as an unmarried individual, or a married individual filing separately
238 whose federal adjusted gross income for such taxable year is fifty
239 thousand dollars or more and for a husband and wife who file a
240 return under federal income tax as married individuals filing jointly or
241 a person who files under federal income tax as a head of household
242 whose federal adjusted gross income for such taxable year is sixty
243 thousand dollars or more an amount equal to the difference between
244 the amount of Social Security benefits includable for federal income tax
245 purposes under the provisions of Section 13215 of the Omnibus Budget
246 Reconciliation Act of 1993 and fifty per cent of the amount of such
247 Social Security benefits includable for federal income tax purposes
248 under the provisions of the Internal Revenue Code of 1986, or any
249 subsequent corresponding internal revenue code of the United States,
250 as from time to time amended, prior to August 10, 1993, (xi) to the
251 extent properly includable in gross income for federal income tax
252 purposes, any amount rebated to a taxpayer pursuant to section
253 12-746, [and] (xii) to the extent properly includable in the gross income
254 for federal income tax purposes of a designated beneficiary, any
255 distribution to such beneficiary from any qualified state tuition
256 program, as defined in Section 529(b) of the Internal Revenue Code,
257 established and maintained by this state or any official, agency or
258 instrumentality of the state, and (xiii) any undistributed interest or
259 dividend income on funds invested in a medical individual retirement
260 account established pursuant to section 3 of this act. With respect to a
261 person who is the beneficiary of a trust or estate, there shall be added
262 or subtracted, as the case may be, from adjusted gross income such
263 person's share, as determined under section 12-714, in the Connecticut
264 fiduciary adjustment.

265 Sec. 6. Subdivision (11) of section (a) of section 36a-250 of the
266 general statutes is repealed and the following is substituted in lieu
267 thereof:

268 (11) Act as agent, fiscal agent or trustee for any corporation or for
269 holders of bonds, notes or other securities, and pledge assets to secure

270 deposits in its banking department when (A) made by it as trustee
271 under a trust indenture for the holders of revenue bonds issued by this
272 state, any municipality, district, municipal corporation or authority or
273 political subdivision thereof, and the express provisions of the
274 authority or its political subdivision, and the express provisions of the
275 trust indenture require the deposit to be so secured, (B) made by it as
276 fiscal agent for a housing authority in connection with a federally-
277 assisted housing project and federal regulations or other requirements
278 call for the deposits to be so secured or (C) made by it to secure
279 deposits in individual retirement accounts and qualified retirement
280 plan accounts [,] established in accordance with the applicable
281 provisions of the Internal Revenue Code of 1986, or any prior or
282 subsequent corresponding internal revenue code of the United States,
283 as from time to time amended, or in medical individual retirement
284 accounts established pursuant to section 3 of this act, where such
285 deposits exceed the maximum of federal deposit insurance available
286 for such accounts.

287 Sec. 7. Subdivision (38) of subsection (a) of section 36a-250 of the
288 general statutes is repealed and the following is substituted in lieu
289 thereof:

290 (38) Even if not expressly authorized to exercise fiduciary powers,
291 act as trustee or custodian of a plan [which] that qualifies as part of a
292 retirement plan for self-employed individuals or an individual
293 retirement account under the provisions of the Internal Revenue Code
294 of 1986, or any subsequent corresponding internal revenue code of the
295 United States, as from time to time amended, or as a medical
296 individual retirement account under the provisions of section 3 of this
297 act, if the governing instrument limits the investment of the funds held
298 pursuant to such plan or account to the following investments: [(1)] (A)
299 Savings deposits and time deposits; and [(2)] (B) with respect to
300 retirement plans for self-employed individuals, notes of members in
301 such plans which evidence the indebtedness of such members for
302 funds borrowed from the plans. Funds held pursuant to any plan or
303 account which so qualifies may be deposited in any Connecticut bank

304 without regard to any statutory limit on the amount which such bank
305 may have on deposit from one depositor.

306 Sec. 8. Subsection (f) of section 36a-446 of the general statutes, as
307 amended by section 10 of public act 99-36, is repealed and the
308 following is substituted in lieu thereof:

309 (f) A Connecticut credit union may, with the written approval of the
310 commissioner and subject to applicable restrictions of state and federal
311 law, receive from members payments on shares that will comprise the
312 assets of an individual retirement account established by such member
313 as authorized by Section 408 of the Internal Revenue Code of 1986, or
314 any subsequent corresponding internal revenue code of the United
315 States, as from time to time amended, or of a Keogh or similar type
316 retirement plan established by or for such member as authorized by
317 Section 401(d) of the Internal Revenue Code of 1986, or any subsequent
318 corresponding internal revenue code of the United States, as from time
319 to time amended, or of a retirement plan established by or for such
320 member as authorized by Section 401(k) of the Internal Revenue Code
321 of 1986, or any subsequent corresponding internal revenue code of the
322 United States, as from time to time amended, or of a medical
323 individual retirement account established by such members pursuant
324 to section 3 of this act. [Payments] Such payments on shares shall be
325 established in a separate account from the other shares of the member,
326 and shall not be subject to pledge to secure loans by the Connecticut
327 credit union to the member nor available for set-off by the Connecticut
328 credit union if the member defaults on a loan. Such shares shall be
329 treated as under separate ownership for purposes of applying any
330 limit imposed by sections 36a-435 to 36a-475, inclusive, as amended, on
331 the maximum amount of shares owned by a member. Otherwise,
332 [these] such shares are subject to all of the provisions of [said] sections
333 36a-435 to 36a-475, inclusive, as amended, relating to shares.

334 Sec. 9. Section 45a-347 of the general statutes is repealed and the
335 following is substituted in lieu thereof:

336 The designation in accordance with the terms of (1) an insurance,
337 annuity or endowment contract, or of any agreement issued or entered
338 into by an insurance company in connection therewith, supplemental
339 thereto or in settlement thereof, or (2) any thrift plan, savings plan,
340 pension plan, profit-sharing plan, death benefit plan, stock bonus plan,
341 employee stock ownership plan, retirement plan including a self-
342 employed retirement plan, qualified cash or deferred arrangement
343 which is part of a profit-sharing plan or stock bonus plan, medical
344 individual retirement account, individual retirement account, annuity
345 or bond or simplified employee pension plan, of any person to be a
346 beneficiary or owner of any right, title or interest thereunder upon the
347 death of another, shall not be subject to any statute or law governing
348 the transfer of property by will, even though such designation is
349 revocable by the person who made it, or the rights of such beneficiary
350 or owner are otherwise subject to defeasance.

351 Sec. 10. Subsection (a) of section 45a-472 of the general statutes is
352 repealed and the following is substituted in lieu thereof:

353 (a) As used in this section, "proceeds" means the proceeds paid
354 upon the death of any insured, employee, participant, or beneficiary
355 under: Any thrift plan, savings plan, pension plan, profit-sharing plan,
356 death benefit plan, stock bonus plan including any employee stock
357 ownership plan; any qualified cash or deferred arrangement which is
358 part of a profit-sharing or stock bonus plan; any retirement plan
359 including a self-employed retirement plan; any medical individual
360 retirement account; any individual retirement account, annuity and
361 bond or simplified employee pension plan; and the proceeds of any
362 individual, group or industrial life insurance policy, or accident and
363 health insurance policy and any annuity contract, endowment
364 insurance contract or supplemental insurance contract.

365 Sec. 11. Subsection (a) of section 52-321a of the general statutes is
366 repealed and the following is substituted in lieu thereof:

367 (a) Except as provided in subsection (b) of this section, any interest

368 in or amounts payable to a participant or beneficiary from (1) any
369 trust, custodial account, annuity or insurance contract established as
370 part of a Keogh plan or a retirement plan established by a corporation
371 which is qualified under Section 401, 403, 404 or 409 of the Internal
372 Revenue Code of 1986, or any subsequent corresponding internal
373 revenue code of the United States, as from time to time amended, (2)
374 any individual retirement account which is qualified under Section 408
375 of said internal revenue code to the extent funded, including income
376 and appreciation, (A) as a roll-over from a qualified retirement plan, as
377 provided in subdivision (1) of this section, pursuant to Section
378 402(a)(5), 403(a) or 408(d)(3) of said internal revenue code or (B) by
379 annual contributions which do not exceed the maximum annual limits
380 set forth in Section 219(b) of said internal revenue code, determined
381 without regard to any reduction or limitation for active participants
382 required by Section 219(g) of said internal revenue code, (3) (A) any
383 simple retirement account established and funded pursuant to Section
384 408(p) of said internal revenue code, (B) any simple plan established
385 and funded pursuant to Section 401(k)(11) of said internal revenue
386 code, (C) any Roth IRA established and funded pursuant to Section
387 408A of said internal revenue code, (D) any education individual
388 retirement account established and funded pursuant to Section 530 of
389 said internal revenue code, or (E) any simplified employee pension
390 established under Section 408(k) of said internal revenue code to the
391 extent such pension is funded by annual contributions within the
392 limits of Section 408(j) of said internal revenue code or roll-over
393 contributions from a qualified plan, as provided in subdivision (1) of
394 this subsection, pursuant to Section 402(a)(5), 403(a) or 408(d)(3) of said
395 internal revenue code, (4) any medical savings account established
396 under Section 220 of said internal revenue code, to the extent such
397 account is funded by annual deductible contributions or a roll-over
398 from any other medical savings account as provided in Section
399 220(f)(5) of said internal revenue code, [or] (5) any pension plan,
400 annuity or insurance contract or similar arrangement not described in
401 subdivision (1) or (2) of this subsection, established by federal or state
402 statute for federal, state or municipal employees for the primary

403 purpose of providing benefits upon retirement by reason of age, health
404 or length of service, or (6) any medical individual retirement account
405 established pursuant to section 3 of this act, shall be exempt from the
406 claims of all creditors of such participant or beneficiary. Any such
407 trust, account, contract, plan or other arrangement shall be (A)
408 conclusively presumed to be a restriction on the transfer of a beneficial
409 interest of the debtor in a trust that is enforceable under the laws of
410 this state, and (B) considered a trust which has been created by or
411 which has proceeded from a person other than such participant or
412 beneficiary, even if such participant or beneficiary is a self-employed
413 individual, a partner of the entity sponsoring the Keogh plan or a
414 shareholder of the corporation sponsoring the retirement plan."

415 In line 29, after "2000" and before the period insert ", except that
416 sections 3 to 11, inclusive, shall take effect January 1, 2001, and shall be
417 applicable to taxable years commencing on or after January 1, 2001."