



Senate Finance Committee

Senator Patrick M. Browne
Chairman

459 Main Capitol Building
Harrisburg, PA 17120-3016
(717) 787-1349

Stacey M. Connors, Esq.
Executive Director
sconnors@pasen.gov

BILL SUMMARY

SENATE BILL 1182, PN 1623 (SENATOR FOLMER)

Summary:

Senate Bill 1182 amends the Tax Reform Code of 1971, by adding the Small Business Health Savings Account Tax Credit.

Credit for health savings account contributions:

- Application: A taxpayer who purchases and provides a qualified high deductible health plan to employees and makes a contribution to a health savings account on behalf of employees in a taxable year may apply for a tax credit by September 15 for the aggregate contribution made by the taxpayer to employee health savings accounts in the taxable year that ended in the prior calendar year.
- Computation: The tax credit shall be:
 - 1) fifty percent of the aggregate contribution made by the taxpayer to employee health savings accounts when the contribution is provided for the benefit of employees, spouses and dependents for the taxable year.
 - 2) twenty five percent of the aggregate contribution made by the taxpayer to employee health savings accounts when the contribution is provided solely for the benefit of an employee.

Limitation on credits:

- The total amount of credits approved by the Department shall not exceed \$30,000,000 in any fiscal year.
- If the total amount of small business health savings account tax credits applied for by all taxpayers exceeds the amount allocated for those credits, then the small business health savings account tax credit to be received by each applicant shall be the product of the allocated amount multiplied by the quotient of the small business health savings account tax credit applied for by the applicant divided by the total of all small business health savings account credits applied for by all applicants, the algebraic equivalent of which is: taxpayer's small business health savings account tax credit = amount allocated for those credits X (small business health savings account tax credit applied for by the applicant/total of all small business health savings account tax credits applied for by all applicants).

Carryover, carryback, refund and assignment of credit:

- Carryover: If the taxpayer cannot use the entire amount of the tax credit for the taxable year in which the tax credit is first approved, then the excess may be carried over to succeeding taxable years and used as a credit against the qualified tax liability of the taxpayer for those taxable years. Each time that the tax credit is carried over to a succeeding taxable year, it is to be reduced by the amount that was used as a credit during

the immediately preceding taxable year. The tax credit may be carried over and applied to succeeding taxable years for no more than 15 taxable years following the first taxable year for which the taxpayer was entitled to claim the credit.

- Application of credit: A tax credit approved by the department for monetary contributions made to employee health savings accounts in a taxable year first shall be applied against the taxpayer's qualified tax liability for the current taxable year as of the date on which the credit was approved before the tax credit is applied against any tax liability.
- Prohibition: A taxpayer is not entitled to assign, carry back or obtain a refund of an unused tax credit.

Shareholder, owner or member pass-through:

- (a) Shareholder's calculation: If a Pennsylvania S corporation does not have an eligible tax liability against which the credit may be applied, a shareholder of the Pennsylvania S corporation is entitled to a tax credit equal to the tax credit determined for the Pennsylvania S Corporation for the taxable year multiplied by the percentage of the Pennsylvania S corporation's distributive income to which the shareholder is entitled.
- (b) Owner or member calculation: if a pass-through entity other than a Pennsylvania S corporation does not have an eligible tax liability against which the tax credit may be applied, an owner or member of the pass-through entity is entitled to a tax credit equal to the tax credit determined for the pass-through entity for the taxable year multiplied by the percentage of the pass-through entity's distributive income to which the owner or member is entitled.
- (c) Restrictions: The credit provided under subsection (a) or (b) is in addition to any tax credit to which a shareholder, owner or member of a pass-through entity is otherwise entitled under this article. However, a pass-through entity and a shareholder, owner or member of a pass-through entity may not claim a credit under this article for the same contributions made to employee health savings accounts.

Report to the General Assembly:

- Requires the secretary of Revenue to submit an annual report to the General Assembly indicating the effectiveness of the credit no later than March 15 following the year in which the credits were approved.
- The report shall include the names of all taxpayers utilizing the credit as of the date of the report, and the amounts of credits approved and utilized by each taxpayer.
- Notwithstanding laws providing for the confidentiality of tax records, the information contained in the report shall be public information.
- The report may also include any recommendations for changes in the calculation or administration of the credit.

Regulations:

- The secretary of Revenue of the Commonwealth shall promulgate regulations necessary for the implementation and administration of the act.

Effective Date:

The act shall take effect immediately, and shall apply to all tax years beginning after December 31, 2006.