

INTERNAL POLICY DIRECTIVE 2009 – 1

March 30, 2009

INCOME TAX - HEALTH INSURANCE PREMIUMS THAT MAY BE DEDUCTED TO ARRIVE AT HOUSEHOLD INCOME

POLICY ISSUES

What types of health insurance premiums may be deducted from household income to compute the homestead property tax and other credits allowed on the Michigan income tax return?

POLICY DETERMINATIONS

Premiums paid for any of the following types of health insurance plans may be deducted from household income to compute applicable credits:

- a. Medical Insurance plans
- b. Dental Insurance plans
- c. Vision Insurance plans
- d. Prescription Drug plans
- e. Automobile Insurance premiums for medical coverage
- f. Medicare premiums paid for the following types of coverage:
 - i. Medicare Part A – Hospital Insurance
 - ii. Medicare Part B – Medical Insurance
 - iii. Medicare Part C – Medicare Advantage Program
 - iv. Medicare Part D – Prescription Drug coverage
- g. Premiums paid for any types of plans that are deducted to arrive at adjusted gross income on the federal return, including the following:
 - i. Contributions to Health Savings Accounts
 - ii. Premiums qualifying for the Self-employed Health Insurance deduction
 - iii. Archer Medical Savings Accounts (MSA)

Premiums paid for the following types of plans may **not** be deducted from household income except to the extent deducted to arrive at adjusted gross income:

- a. Premiums for long term care
- b. Premiums for income replacement coverage, such as long term disability plans
- c. Premiums for disability insurance policies
- d. Premiums for policies for loss of life, limbs, sight, etc.
- e. Premiums paid by an employer with pre-tax contributions

DISCUSSION

Section 510 of the Michigan Income Tax Act (“ITA”) provides the statutory definition of [household] income. “Household Income” is used to compute the homestead property tax, the home heating, and the college tuition and fees credits that are allowed under the ITA. It is also used to compute the farmland preservation tax credit allowed under the Natural Resources and Environmental Protection Act, 1994 P.A. 451. MCL 206.510(1) states, in pertinent part, that:

“Income” means the sum of federal adjusted gross income as defined in the internal revenue code plus all income specifically excluded or exempt from the computations of the federal adjusted gross income Also, a person who is enrolled in an accident or health insurance plan may deduct from income the amount that person paid in premiums in the tax year for that insurance plan for the person's family. Income does not include any of the following:

* * *

(h) Amounts deducted from monthly social security or railroad retirement benefits for Medicare premiums.

(i) Contributions by an employer to life, accident, or health insurance plans. . . .”

This definition explicitly and implicitly identifies four specific types of deductions for insurance premiums that may be used by a person to calculate household income:

1. Premiums deducted to arrive at federal adjusted gross income as defined under the internal revenue code.
2. Premiums paid by a person enrolled in an accident or health insurance plan.
3. Amounts deducted from social security or railroad retirement benefits for medicare premiums.
4. Premiums paid by an employer for life, accident, or health insurance plans.

Since the terms “accident or health insurance plans” are not specifically defined in the ITA or generally defined in any other Michigan laws, the Department looks to the internal revenue code for guidance in establishing a definition of accident and health plans for purposes of the deduction allowed in household income. While the Internal Revenue code does not define the term “accident and health insurance plans” or “health insurance plans,” an itemized deduction is allowed on the federal income tax return for qualifying medical expenses under section 213 of the internal revenue code, including insurance premiums paid for plans covering medical care. The term medical care as used therein is defined to mean amounts paid for “the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body.”¹

¹ IRC §213(d)(1)(A)

The Department will adopt the general criteria in IRC §213 as a working definition for the types of health insurance premiums that may be deducted from household income under MCL 206.510. Premiums for medical, dental, vision, and prescription drug plans, which provide payments for the types of health care described in IRC §213, *i.e.* for “the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body,” may be deducted from household income. Premiums for long term care and income replacement plans that do not provide payments for these types of health care are not deductible.

Furthermore, contributions made by an employer to a life, accident, or health insurance plan must first be included in the employee’s wages (and hence in adjusted gross income) in order to be deducted from household income. Pre-tax payroll contributions for health insurance premiums deducted from an employee’s paycheck are not included in wages and may not be deducted from household income. However, premiums paid by an employer for group term life insurance policies of more than \$50,000.00 must be included in the employee’s income or wages² and may be deducted from household income.

Medicare premiums that are deducted from a person’s monthly social security benefit will be separately reported on the annual social security benefit statement, form SSA-1099, issued by the Social Security Administration. Any type of medicare premium paid (Type A, B, C, or D) may be deducted from the social security benefits reported in box 3 of the SSA-1099 form to determine the amount of social security benefits to report in household income. This net amount of social security benefits actually paid to the recipient is reported on the line designated for social security benefits in the schedule of household income. Since the medicare premiums are deducted to arrive at the net social security benefits, *they are not deducted again on the line designated for health insurance premiums.* (Note: Gross social security benefits are reported on the front page of the federal return and medicare premiums are deducted on federal schedule A as an itemized deduction).

Contributions or payments made to Health Savings Accounts or Archer Medical Savings Accounts and premiums paid to health insurance plans by self employed individuals generally may be deducted as an adjustment to gross income on the front page of the federal income tax return. These payments may be deducted from household income to the same extent deducted to arrive at federal adjusted gross income.

These are general guidelines that should be used to determine what type of health insurance premiums may be deducted from household income. Payments for any plans not mentioned in this IPD that are not deducted to arrive at adjusted gross income and are not a type of medicare payment should be reviewed in light of the definition of medical care used in §213(d)(1)(A) of the internal revenue code. In general, payments

² IRC §79

for plans that provide coverage for “the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body” will qualify for the deduction allowed for health insurance premiums in household income.