114TH CONGRESS
2D Session

S._____

To amend the Internal Revenue Code of 1986 to improve access to health care through expanded health savings accounts, and for other purposes.

IN THE SENATE OF THE UNITED STATES

Mr. Hatch (for himself, Mr. Rubio, Mr. Barrasso, and Mr. Johnson) introduced the following bill; which was read twice and referred to the Committee on

A BILL

To amend the Internal Revenue Code of 1986 to improve access to health care through expanded health savings accounts, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE, ETC.

(a) Short Title.—This Act may be cited as the “Health Savings Act of 2016”.

(b) Amendment of 1986 Code.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference
shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

(c) **Table of Contents.**—The table of contents is as follows:

Sec. 1. Short title, etc.

**TITLE I—RENAMEVING HIGH DEDUCTIBLE HEALTH PLANS**

Sec. 101. High deductible health plans renamed HSA-qualified health plans.

**TITLE II—ENHANCING ACCESS TO TAX-PREFERRED HEALTH ACCOUNTS**

Sec. 201. Allow both spouses to make catch-up contributions to the same HSA account.
Sec. 203. Individuals eligible for Indian Health Service assistance.
Sec. 204. Individuals eligible for TRICARE coverage.
Sec. 205. Members of health care sharing ministries eligible to establish health savings accounts.
Sec. 206. Treatment of direct primary care service arrangements.
Sec. 207. Individuals eligible for on-site medical clinic coverage.
Sec. 208. Treatment of embedded deductibles.

**TITLE III—IMPROVING COVERAGE UNDER TAX-PREFERRED HEALTH ACCOUNTS**

Sec. 301. Allowance of distributions for prescription and over-the-counter medicines and drugs.
Sec. 302. Purchase of health insurance from HSA account.
Sec. 303. Special rule for certain medical expenses incurred before establishment of account.
Sec. 304. Preventive care prescription drug clarification.

**TITLE IV—PROTECTING ACCESS TO LOW-COST HEALTH PLANS BY REDUCING BURDENSOME MANDATES**

Sec. 401. HSA-qualified health plans qualify as providing minimum value.

**TITLE V—MISCELLANEOUS PROVISIONS RELATING TO TAX-PREFERRED HEALTH ACCOUNTS**

Sec. 501. FSA and HRA interaction with HSAs.
Sec. 502. Equivalent bankruptcy protections for health savings accounts as retirement funds.
Sec. 503. Administrative error correction before due date of return.
Sec. 504. Reauthorization of medicaid health opportunity accounts.
Sec. 505. Exclusion of certain health arrangements from employer-sponsored excise tax.

**TITLE VI—OTHER PROVISIONS**
Sec. 601. Certain exercise equipment and physical fitness programs treated as medical care.
Sec. 602. Certain nutritional and dietary supplements to be treated as medical care.
Sec. 603. Certain provider fees to be treated as medical care.

TITLE I—RENAMEING HIGH DEDUCTIBLE HEALTH PLANS

SEC. 101. HIGH DEDUCTIBLE HEALTH PLANS RENAMED HSA-QUALIFIED HEALTH PLANS.

(a) IN GENERAL.—Section 223 is amended by striking “high deductible health plan” each place it appears and inserting “HSA-qualified health plan”.

(b) CONFORMING AMENDMENTS.—

(1) The heading for paragraph (2) of section 223(e) is amended by striking “HIGH DEDUCTIBLE HEALTH PLAN” and inserting “HSA-QUALIFIED HEALTH PLAN”.

(2) Section 408(d)(9) is amended—

(A) by striking “high deductible health plan” each place it appears in subparagraph (C) and inserting “HSA-qualified health plan”, and

(B) by striking “HIGH DEDUCTIBLE HEALTH PLAN” in the heading of subparagraph (D) and inserting “HSA-QUALIFIED HEALTH PLAN”.

TITLE II—ENHANCING ACCESS TO TAX-PREFERRED HEALTH ACCOUNTS

SEC. 201. ALLOW BOTH SPOUSES TO MAKE CATCH-UP CONTRIBUTIONS TO THE SAME HSA ACCOUNT.

(a) IN GENERAL.—Paragraph (5) of section 223(b) is amended to read as follows:

“(5) SPECIAL RULE FOR MARRIED INDIVIDUALS WITH FAMILY COVERAGE.—

“(A) IN GENERAL.—In the case of individuals who are married to each other, if both spouses are eligible individuals and either spouse has family coverage under an HSA-qualified health plan as of the first day of any month—

“(i) the limitation under paragraph (1) shall be applied by not taking into account any other HSA-qualified health plan coverage of either spouse (and if such spouses both have family coverage under separate HSA-qualified health plans, only one such coverage shall be taken into account),

“(ii) such limitation (after application of clause (i)) shall be reduced by the ag-
aggregate amount paid to Archer MSAs of such spouses for the taxable year, and

“(iii) such limitation (after application of clauses (i) and (ii)) shall be divided equally between such spouses unless they agree on a different division.

“(B) Treatment of additional contribution amounts.—If both spouses referred to in subparagraph (A) have attained age 55 before the close of the taxable year, the limitation referred to in subparagraph (A)(iii) which is subject to division between the spouses shall include the additional contribution amounts determined under paragraph (3) for both spouses. In any other case, any additional contribution amount determined under paragraph (3) shall not be taken into account under subparagraph (A)(iii) and shall not be subject to division between the spouses.”.

(b) Effective Date.—The amendment made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

SEC. 202. PROVISIONS RELATING TO MEDICARE.

(a) Individuals Over Age 65 Only Enrolled in Medicare Part A.—Paragraph (7) of section 223(b) is
amended by adding at the end the following: “This para-
graph shall not apply to any individual during any period
for which the individual’s only entitlement to such benefits
is an entitlement to hospital insurance benefits under part
A of title XVIII of such Act pursuant to an enrollment
for such hospital insurance benefits under section 226(a)
of such Act.”.

(b) Medicare Beneficiaries Participating in
Medicare Advantage MSA May Contribute Their
Own Money to Their MSA.—

(1) In general.—Subsection (b) of section
138 is amended by striking paragraph (2) and by re-
designating paragraphs (3) and (4) as paragraphs
(2) and (3), respectively.

(2) Conforming amendment.—Paragraph (4)
of section 138(e) is amended by striking “and para-
graph (2)”.

(c) Effective date.—The amendments made by
this section shall apply to taxable years beginning after
the date of the enactment of this Act.

SEC. 203. INDIVIDUALS ELIGIBLE FOR INDIAN HEALTH
SERVICE ASSISTANCE.

(a) In general.—Paragraph (1) of section 223(e)
is amended by adding at the end the following new sub-
paragraph:
“(D) Special rule for individuals eligible for assistance under Indian health service programs.—For purposes of subparagraph (A)(ii), an individual shall not be treated as covered under a health plan described in such subparagraph merely because the individual receives hospital care or medical services under a medical care program of the Indian Health Service or of a tribal organization.”.

(b) Effective Date.—The amendment made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

SEC. 204. INDIVIDUALS ELIGIBLE FOR TRICARE COVERAGE.

(a) In General.—Paragraph (1) of section 223(c), as amended by section 203, is amended by adding at the end the following new subparagraph:

“(E) Special rule for individuals eligible for assistance under TRICARE.—For purposes of subparagraph (A)(ii), an individual shall not be treated as covered under a health plan described in such subparagraph merely because the individual is eligible to receive hospital care, medical services, or prescription drugs under TRICARE Extra or TRICARE
Standard and such individual is not enrolled in TRICARE Prime.”.

(b) Effective Date.—The amendment made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

SEC. 205. MEMBERS OF HEALTH CARE SHARING MINISTRIES ELIGIBLE TO ESTABLISH HEALTH SAVINGS ACCOUNTS.

(a) In General.—Section 223 is amended by adding at the end the following new subsection:

“(i) Application to Health Care Sharing Ministries.—For purposes of this section, membership in a health care sharing ministry (as defined in section 5000A(d)(2)(B)(ii)) shall be treated as coverage under an HSA-qualified health plan.”.

(b) Effective Date.—The amendment made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

SEC. 206. TREATMENT OF DIRECT PRIMARY CARE SERVICE ARRANGEMENTS.

(a) In General.—Section 223(c) is amended by adding at the end the following new paragraph:

“(6) Treatment of direct primary care service arrangements.—An arrangement under which an individual is provided coverage restricted to
primary care services in exchange for a fixed perio-
dic fee or payment for primary care services—

“(A) shall not be treated as a health plan
for purposes of paragraph (1)(A)(ii), and

“(B) shall not be treated as insurance for
purposes of subsection (d)(2)(B).”.

(b) Effective Date.—The amendment made by
this section shall apply to taxable years beginning after
the date of the enactment of this Act.

SEC. 207. INDIVIDUALS ELIGIBLE FOR ON-SITE MEDICAL
CLINIC COVERAGE.

(a) In General.—Paragraph (1) of section 223(c),
as amended by sections 203 and 204, is amended by add-
ing at the end the following new subparagraph:

“(F) Special rule for individuals el-
igible for on-site medical clinic cov-
erage.—

“(i) In general.—For purposes of
subparagraph (A)(ii), an individual shall
not be treated as covered under a health
plan described in such subparagraph mere-
ly because the individual is eligible to re-
ceive health care benefits from an onsite-
medical clinic of employer of the individual
or the individual’s spouse if such health care benefits are not significant benefits.

“(ii) INCLUDED BENEFITS.—For purposes of clause (i), the following health care benefits shall be considered to be benefits which are not significant benefits:

“(I) Physicals and immunizations.

“(II) Injecting antigens provided by employees.

“(III) Medications available without a prescription, such as pain relievers and antihistamines.

“(IV) Treatment for injuries occurring at the employer’s place of employment or otherwise in the course of employment.

“(V) Tests for infectious diseases and conditions, such as streptococcal sore throat.

“(VI) Monitoring of chronic conditions, such as diabetes.

“(VII) Drug testing.

“(VIII) Hearing or vision screenings and related services.
“(IX) Other services and treatments of a similar nature to the services described in subclauses (I) through (VIII).

“(iii) AGGREGATION RULES.—For purposes of clause (i), all persons treated as a single employer under subsections (b), (c), (m), or (o) of section 414 shall be treated as a single employer.”.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

SEC. 208. TREATMENT OF EMBEDDED DEDUCTIBLES.

(a) IN GENERAL.—Paragraph (2) of section 223(c) is amended by adding at the end the following new subparagraph:

“(E) TREATMENT OF EMBEDDED DEDUCTIBLE.—A health plan providing family coverage that has an annual deductible for all covered individuals under the plan of at least the amount described in subparagraph (A)(i)(II) shall not fail to be treated as an HSA-qualified health plan solely because it covers expenses with respect to an individual under that plan that exceed an embedded deductible which is equal to
or in excess of the amount described in subparagraph (A)(i)(I).”

(b) **Effective Date.**—The amendment made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

**TITLE III—IMPROVING COVERAGE UNDER TAX-PREFERRED HEALTH ACCOUNTS**

**SEC. 301. ALLOWANCE OF DISTRIBUTIONS FOR PRESCRIPTION AND OVER-THE-COUNTER MEDICINES AND DRUGS.**

(a) **HSAs.**—Section 223(d)(2)(A) is amended by striking the last sentence thereof and inserting the following: “Such term shall include an amount paid for any prescription or over-the-counter medicine or drug.”

(b) **Archer MSAs.**—Section 220(d)(2)(A) is amended by striking the last sentence thereof and inserting the following: “Such term shall include an amount paid for any prescription or over-the-counter medicine or drug.”

(c) **Health Flexible Spending Arrangements and Health Reimbursement Arrangements.**—Subsection (f) of section 106 is amended to read as follows: “(f) **Reimbursements for All Medicines and Drugs.**—For purposes of this section and section 105, reimbursement for expenses incurred for any prescription
or over-the-counter medicine or drug shall be treated as a reimbursement for medical expenses.”.

(d) Effective Dates.—

(1) Distributions from savings accounts.—The amendments made by subsections (a) and (b) shall apply to amounts paid in taxable years beginning after December 31, 2016.

(2) Reimbursements.—The amendment made by subsection (e) shall apply to expenses incurred in plan years beginning after December 31, 2016.

SEC. 302. PURCHASE OF HEALTH INSURANCE FROM HSA ACCOUNT.

(a) In General.—Paragraph (2) of section 223(d), as amended by section 301, is amended—

(1) by striking “and any dependent (as defined in section 152, determined without regard to subsections (b)(1), (b)(2), and (d)(1)(B) thereof) of such individual” in subparagraph (A) and inserting “any dependent (as defined in section 152, determined without regard to subsections (b)(1), (b)(2), and (d)(1)(B) thereof) of such individual, and any child (as defined in section 152(f)(1)) of such individual who has not attained the age of 27 before the end of such individual’s taxable year”.

...
(2) by striking subparagraph (B) and inserting the following:

“(B) Health insurance may not be purchased from account.—Except as provided in subparagraph (C), subparagraph (A) shall not apply to any payment for insurance.”,

and

(3) by striking “or” at the end of subparagraph (C)(iii) and by striking subparagraph (C)(iv) and inserting the following:

“(iv) an HSA-qualified health plan, or
“(v) any health insurance under title XVIII of the Social Security Act, other than a Medicare supplemental policy (as defined in section 1882 of such Act).”.

(b) Effective Date.—The amendments made by this section shall apply with respect to insurance purchased after the date of the enactment of this Act in taxable years beginning after such date.

SEC. 303. SPECIAL RULE FOR CERTAIN MEDICAL EXPENSES INCURRED BEFORE ESTABLISHMENT OF ACCOUNT.

(a) In General.—Paragraph (2) of section 223(d) is amended by adding at the end the following new sub-paragraph:
“(D) Treatment of certain medical expenses incurred before establishment of account.—If a health savings account is established during the 60-day period beginning on the date that coverage of the account beneficiary under an HSA-qualified health plan begins, then, solely for purposes of determining whether an amount paid is used for a qualified medical expense, such account shall be treated as having been established on the date that such coverage begins.”.

(b) Effective Date.—The amendment made by this section shall apply with respect to coverage beginning after the date of the enactment of this Act.

SEC. 304. PREVENTIVE CARE PRESCRIPTION DRUG CLARIFICATION.

(a) Clarify Use of Drugs in Preventive Care.—Subparagraph (C) of section 223(c)(2) is amended by adding at the end the following: “Preventive care shall include prescription and over-the-counter drugs and medicines which have the primary purpose of preventing the onset of, further deterioration from, or complications associated with chronic conditions, illnesses, or diseases.”.
(b) Effective Date.—The amendment made by this section shall apply to taxable years beginning after December 31, 2016.

TITLE IV—PROTECTING ACCESS TO LOW-COST HEALTH PLANS BY REDUCING BURDENSOME MANDATES

SEC. 401. HSA-QUALIFIED HEALTH PLANS QUALIFY AS PROVIDING MINIMUM VALUE.

(a) In General.—Clause (ii) of section 36B(c)(2)(C) is amended by inserting “, in the case of a plan other than an HSA-qualified health plan,” after “an eligible employer-sponsored plan (as defined in section 5000A(f)(2)) and”.

(b) Effective Date.—The amendment made by this section shall apply to months beginning after December 31, 2016.

TITLE V—MISCELLANEOUS PROVISIONS RELATING TO TAX-PREFERRED HEALTH ACCOUNTS

SEC. 501. FSA AND HRA INTERACTION WITH HSAS.

(a) Eligible Individuals Include FSA and HRA Participants.—Subparagraph (B) of section 223(c)(1) is amended—
(1) by striking “and” at the end of clause (ii),
(2) by striking the period at the end of clause
(iii) and inserting “, and”, and
(3) by inserting after clause (iii) the following
new clause:

“(iv) coverage under a health flexible
spending arrangement or a health reim-
bursement arrangement in the plan year a
qualified HSA distribution as described in
section 106(e) is made on behalf of the in-
dividual if, after the qualified HSA dis-
tribution is made and for the remaining
duration of the plan year, the coverage
provided under the arrangement is con-
verted solely to one or more of the fol-
lowing:

“(I) POST-DEDUCTIBLE FSA OR
HRA.—A health flexible spending ar-
rangement or a health reimbursement
arrangement that does not pay or re-
imburse any medical expense incurred
before the minimum annual deductible
under paragraph (2)(A)(i) (prorated
for the period occurring after the
qualified HSA distribution is made) is satisfied.

“(II) Preventative care.—A health flexible spending arrangement or a health reimbursement arrangement that, after the qualified HSA distribution is made, does not pay or reimburse any medical expense incurred after the qualified HSA distribution is made other than preventive care as defined in paragraph (2)(C).

“(III) Limited purpose health FSA.—A health flexible spending arrangement that, after the qualified HSA distribution is made, pays or reimburses benefits for coverage described in clause (ii) (but not through insurance or for long-term care services).

“(IV) Limited purpose HRA.—A health reimbursement arrangement that, after the qualified HSA distribution is made, pays or reimburses benefits for permitted insurance or cov-
verage described in clause (ii) (but not
for long-term care services).

“(V) Retirement HRA.—A
health reimbursement arrangement
that, after the qualified HSA distribu-
tion is made, pays or reimburses only
those medical expenses incurred after
an individual’s retirement (and no ex-
penses incurred before retirement).

“(VI) Suspended HRA.—A
health reimbursement arrangement
that, after the qualified HSA distribu-
tion is made, is suspended, pursuant
to an election made on or before the
date the individual elects a qualified
HSA distribution or, if later, on the
date of the individual enrolls in a
HSA-qualified health plan, that does
not pay or reimburse, at any time,
any medical expense incurred during
the suspension period except as de-
scribed in the preceding subclauses of
this clause.”.
(b) Qualified HSA Distribution Shall Not Affect Flexible Spending Arrangement.—Paragraph (1) of section 106(e) is amended to read as follows:

“(1) In general.—A plan shall not fail to be treated as—

“(A) a health flexible spending arrangement under this section, section 105, or section 125,

“(B) a health reimbursement arrangement under this section or section 105, or

“(C) an accident or health plan, merely because such plan provides for a qualified HSA distribution.”.

(c) FSA Balances at Year End Shall Not Forfeit.—Paragraph (2) of section 125(d) is amended by adding at the end the following new subparagraph:

“(E) Exception for Qualified HSA Distributions.—Subparagraph (A) shall not apply to the extent that there is an amount remaining in a health flexible spending account at the end of a plan year that an individual elects to contribute to a health savings account pursuant to a qualified HSA distribution (as defined in section 106(e)(2)).”.
(d) SIMPLIFICATION OF LIMITATIONS ON FSA AND HRA ROLLOVERS.—Paragraph (2) of section 106(e) is amended to read as follows:

“(2) QUALIFIED HSA DISTRIBUTION.—

“(A) IN GENERAL.—The term ‘qualified HSA distribution’ means a distribution from a health flexible spending arrangement or health reimbursement arrangement directly to a health savings account of the employee to the extent that such distribution does not exceed the lesser of—

“(i) the balance in such arrangement as of the date of such distribution, or

“(ii) the amount determined under subparagraph (B).

Such term shall not include more than 1 distribution with respect to any arrangement.

“(B) DOLLAR LIMITATIONS.—

“(i) DISTRIBUTIONS FROM A HEALTH FLEXIBLE SPENDING ARRANGEMENT.—A qualified HSA distribution from a health flexible spending arrangement shall not exceed the applicable amount.

“(ii) DISTRIBUTIONS FROM A HEALTH REIMBURSEMENT ARRANGEMENT.—A
qualified HSA distribution from a health reimbursement arrangement shall not exceed—

“(I) the applicable amount divided by 12, multiplied by

“(II) the number of months during which the individual is a participant in the health reimbursement arrangement.

“(iii) APPLICABLE AMOUNT.—For purposes of this subparagraph, the applicable amount is—

“(I) $2,250 in the case of an eligible individual who has self-only coverage under an HSA-qualified health plan at the time of such distribution, and

“(II) $4,500 in the case of an eligible individual who has family coverage under an HSA-qualified health plan at the time of such distribution.”.

(e) ELIMINATION OF ADDITIONAL TAX FOR FAILURE TO MAINTAIN HSA-QUALIFIED HEALTH PLAN COVERAGE.—Subsection (e) of section 106 is amended—
(1) by striking paragraph (3) and redesignating paragraphs (4) and (5) as paragraphs (3) and (4), respectively, and

(2) by striking subparagraph (A) of paragraph (3), as so redesignated, and redesignating subparagraphts (B) and (C) of such paragraph as subparagraphs (A) and (B) thereof, respectively.

(f) Limited Purpose FSAs and HRAs.—Subsection (e) of section 106, as amended by this section, is amended by adding at the end the following new paragraph:

“(5) Limited Purpose FSAs and HRAs.—A plan shall not fail to be a health flexible spending arrangement, a health reimbursement arrangement, or an accident or health plan under this section or section 105 merely because the plan converts coverage for individuals who enroll in an HSA-qualified health plan described in section 223(e)(2) to coverage described in subclauses (I), (II), (III), (IV), (V), or (VI) of section 223(e)(1)(B)(iv). Coverage for such individuals may be converted as of the date of enrollment in the HSA-qualified health plan, without regard to the period of coverage under the health flexible spending arrangement or health reimbursement arrangement, and without requiring any
change in coverage to individuals who do not enroll
in an HSA-qualified health plan.”.

(g) DISTRIBUTION AMOUNTS ADJUSTED FOR COST-
OF-LIVING.—Subsection (e) of section 106, as amended
by this section, is amended by adding at the end the fol-
lowing new paragraph:

“(6) COST-OF-LIVING ADJUSTMENT.—

“(A) IN GENERAL.—In the case of any
taxable year beginning in a calendar year after
2016, each of the dollar amounts in paragraph
(2)(B)(iii) shall be increased by an amount
equal to such dollar amount, multiplied by the
cost-of-living adjustment determined under sec-
tion 1(f)(3) for the calendar year in which such
taxable year begins by substituting ‘calendar
year 2015’ for ‘calendar year 1992’ in subpara-
graph (B) thereof.

“(B) ROUNING.—If any increase under
paragraph (1) is not a multiple of $50, such in-
crease shall be rounded to the nearest multiple
of $50.”.

(h) DISCLAIMER OF DISQUALIFYING COVERAGE.—
Subparagraph (B) of section 223(e)(1), as amended by
this section, is amended—

(1) by striking “and” at the end of clause (iii),
(2) by striking the period at the end of clause
(iv) and inserting “, and”, and
(3) by inserting after clause (iv) the following
new clause:

“(v) any coverage (including prospective coverage) under a health plan that is
not an HSA-qualified health plan which is
disclaimed in writing, at the time of the
creation or organization of the health sav-
ings account, including by execution of a
trust described in subsection (d)(1)
through a governing instrument that in-
cludes such a disclaimer, or by acceptance
of an amendment to such a trust that in-
cludes such a disclaimer.”.

(i) Effective Date.—The amendments made by
this section shall apply to taxable years beginning after
the date of the enactment of this Act.

SEC. 502. EQUIVALENT BANKRUPTCY PROTECTIONS FOR
HEALTH SAVINGS ACCOUNTS AS RETIRE-
MENT FUNDS.

(a) In General.—Section 522 of title 11, United
States Code, is amended by adding at the end the fol-
lowing new subsection:
“(r) Treatment of Health Savings Accounts.—For purposes of this section, any health savings account (as described in section 223 of the Internal Revenue Code of 1986) shall be treated in the same manner as an individual retirement account described in section 408 of such Code.”.

(b) Effective Date.—The amendment made by this section shall apply to cases commencing under title 11, United States Code, after the date of the enactment of this Act.

SEC. 503. ADMINISTRATIVE ERROR CORRECTION BEFORE DUE DATE OF RETURN.

(a) In General.—Paragraph (4) of section 223(f) is amended by adding at the end the following new sub-paragraph:

“(D) Exception for Administrative Errors Corrected Before Due Date of Return.—Subparagraph (A) shall not apply if any payment or distribution is made to correct an administrative, clerical, or payroll contribution error and if—

“(i) such distribution is received by the individual on or before the last day prescribed by law (including extensions of
time) for filing such individual’s return for
such taxable year, and

“(ii) such distribution is accompanied
by the amount of net income attributable
to such contribution.

Any net income described in clause (ii) shall be
included in the gross income of the individual
for the taxable year in which it is received.”.

(b) Effective Date.—The amendment made by
this section shall take effect on the date of the enactment
of this Act.

SEC. 504. REAUTHORIZATION OF MEDICAID HEALTH OPPORTUNITY ACCOUNTS.

(a) In General.—Section 1938 of the Social Security Act (42 U.S.C. 1396u–8) is amended—

(1) in subsection (a)—

(A) by striking paragraph (2) and inserting the following:

“(2) Initial Demonstration.—The Secretary
shall approve States to conduct demonstration pro-
grams under this section for a 5-year period, with
each State demonstration program covering one or
more geographic areas specified by the State. With
respect to a State, after the initial 5-year period of
any demonstration program conducted under this
section by the State, unless the Secretary finds, taking into account cost-effectiveness and quality of care, that the State demonstration program has been unsuccessful, the demonstration program may be extended or made permanent in the State.”; and

(B) in paragraph (3), in the matter preceding subparagraph (A)—

(i) by striking “not”; and

(ii) by striking “unless” and inserting “if”;

(2) in subsection (b)—

(A) in paragraph (3), by inserting “clause (i) through (vii), (viii) (without regard to the amendment made by section 2004(c)(2) of Public Law 111–148), (x), or (xi) of” after “described in”; and

(B) by striking paragraphs (4), (5), and (6);

(3) in subsection (c)—

(A) by striking paragraphs (3) and (4);

(B) by redesignating paragraphs (5) through (8) as paragraphs (3) through (6), respectively; and

(C) in paragraph (4) (as redesignated by subparagraph (B)), by striking “Subject to sub-
paragraphs (D) and (E)” and inserting “Subject to subparagraph (D)”;
and
(4) in subsection (d)—
(A) in paragraph (2), by striking subparagraph (E); and
(B) in paragraph (3)—
(i) in subparagraph (A)(ii), by striking “Subject to subparagraph (B)(ii), in” and inserting “In”; and
(ii) by striking subparagraph (B) and inserting the following:
“(B) MAINTENANCE OF HEALTH OPPORTUNITY ACCOUNT AFTER BECOMING INELIGIBLE FOR PUBLIC BENEFIT.—Notwithstanding any other provision of law, if an account holder of a health opportunity account becomes ineligible for benefits under this title because of an increase in income or assets—
“(i) no additional contribution shall be made into the account under paragraph (2)(A)(i); and
“(ii) the account shall remain available to the account holder for 3 years after the date on which the individual becomes ineligible for such benefits for withdrawals
under the same terms and conditions as if
the account holder remained eligible for
such benefits, and such withdrawals shall
be treated as medical assistance in accord-
ance with subsection (c)(4).”.

(b) CONFORMING AMENDMENT.—Section 613 of
Public Law 111–3 is repealed.

SEC. 505. EXCLUSION OF CERTAIN HEALTH ARRANGE-
MENTS FROM EMPLOYER-SPONSORED EX-
CISE TAX.

(a) IN GENERAL.—Subparagraph (B) of section
4980I(d)(1) is amended by striking the period at the end
of clause (iii) and inserting “, or” and by adding at the
end the following new clause:

“(iv) any amounts contributed to an
Archer MSA under section 106(b), a
health savings account under section
106(d), or a health flexible spending ar-
rangement—

“(I) by an employee, or
“(II) by an employer through sal-
ary reduction contributions.”.

(b) CONFORMING AMENDMENTS.—

(1) Section 4980I(d)(2)(B) is amended by
striking “shall be equal to the sum of” and all that
follows and inserting “shall be equal to the amount determined under subparagraph (A) with respect to any reimbursement under the arrangement in excess of any employer contributions under any salary reduction election under the arrangement.”

(2) Section 4980I(d)(2)(C) is amended by inserting “(determined without regard to any employer contributions under any salary reduction election under the arrangement)” before the period at the end.

(c) Effective Date.—The amendments made by this section shall apply to taxable years beginning after December 31, 2019.

TITLE VI—OTHER PROVISIONS

SEC. 601. CERTAIN EXERCISE EQUIPMENT AND PHYSICAL FITNESS PROGRAMS TREATED AS MEDICAL CARE.

(a) In General.—Subsection (d) of section 213 is amended by adding at the end the following new paragraph:

“(12) Exercise equipment and physical fitness activity.—

“(A) In general.—The term ‘medical care’ shall include amounts paid—
“(i) for equipment for use in a program (including a self-directed program) of physical exercise or physical activity,

“(ii) to participate, or receive instruction, in a program of physical exercise, nutrition, or health coaching (including a self-directed program), and

“(iii) for membership at a fitness facility.

“(B) OVERALL DOLLAR LIMITATION.—

“(i) IN GENERAL.—Amounts treated as medical care under subparagraph (A) shall not exceed $1,000 with respect to any individual for any taxable year.

“(ii) EXCEPTION.—Clause (i) shall not apply for purposes of determining whether expenses reimbursed through a health flexible spending arrangement subject to section 125(i)(1) are incurred for medical care.

“(C) LIMITATIONS RELATED TO SPORTS AND FITNESS EQUIPMENT.—Amounts paid for equipment described in subparagraph (A)(i) shall be treated as medical care only—
“(i) if such equipment is utilized exclusively for participation in fitness, exercise, sport, or other physical activity programs,

“(ii) if such equipment is not apparel or footwear, and

“(iii) in the case of any item of sports equipment (other than exercise equipment), with respect to so much of the amount paid for such item as does not exceed $250.

“(D) **Fitness facility defined.**—For purposes of subparagraph (A)(iii), the term ‘fitness facility’ means a facility—

“(i) providing instruction in a program of physical exercise, offering facilities for the preservation, maintenance, encouragement, or development of physical fitness, or serving as the site of such a program of a State or local government,

“(ii) which is not a private club owned and operated by its members,

“(iii) which does not offer golf, hunting, sailing, or riding facilities,
“(iv) whose health or fitness facility is not incidental to its overall function and purpose, and
“(v) which is fully compliant with the State of jurisdiction and Federal anti-discrimination laws.”.

(b) LIMITATION NOT TO APPLY FOR CERTAIN PURPOSES.—

(1) HEALTH SAVINGS ACCOUNTS.—Subparagraph (A) of section 223(d)(2) is amended by inserting “, determined without regard to paragraph (12)(B) thereof” after “medical care (as defined in section 213(d)”.

(2) ARCHER MFSAS.—Subparagraph (A) of section 220(d)(2) is amended by inserting “, determined without regard to paragraph (12)(B) thereof” after “medical care (as defined in section 213(d)”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

SEC. 602. CERTAIN NUTRITIONAL AND DIETARY SUPPLEMENTS TO BE TREATED AS MEDICAL CARE.

(a) IN GENERAL.—Subsection (d) of section 213, as amended by section 601, is amended by adding at the end the following new paragraph:
“(13) NUTRITIONAL AND DIETARY SUPPLEMENTS.—

“(A) IN GENERAL.—The term ‘medical care’ shall include amounts paid to purchase herbs, vitamins, minerals, homeopathic remedies, meal replacement products, and other dietary and nutritional supplements.

“(B) LIMITATION.—Amounts treated as medical care under subparagraph (A) shall not exceed $1,000 with respect to any individual for any taxable year.

“(C) MEAL REPLACEMENT PRODUCT.—

For purposes of this paragraph, the term ‘meal replacement product’ means any product that—

“(i) is permitted to bear labeling making a claim described in section 403(r)(3) of the Federal Food, Drug, and Cosmetic Act, and

“(ii) is permitted to claim under such section that such product is low in fat and is a good source of protein, fiber, and multiple essential vitamins and minerals.

“(D) EXCEPTION.—Subparagraph (B) shall not apply for purposes of determining whether expenses reimbursed through a health
flexible spending arrangement subject to section 125(i)(1) are incurred for medical care.”.

(b) LIMITATION NOT TO APPLY FOR CERTAIN PURPOSES.—

(1) HEALTH SAVINGS ACCOUNTS.—Subparagraph (A) of section 223(d)(2), as amended by section 601, is amended by striking “paragraph (12)(B)” and inserting “paragraphs (12)(B) and (13)(B)”.

(2) ARCHER MSAS.—Subparagraph (A) of section 220(d)(2), as amended by section 601, is amended by striking “paragraph (12)(B)” and inserting “paragraphs (12)(B) and (13)(B)”.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

SEC. 603. CERTAIN PROVIDER FEES TO BE TREATED AS MEDICAL CARE.

(a) IN GENERAL.—Subsection (d) of section 213, as amended by sections 601 and 602, is amended by adding at the end the following new paragraph:

“(14) PERIODIC PROVIDER FEES.—The term ‘medical care’ shall include—

“(A) periodic fees paid to a primary care physician for a defined set of medical services
or the right to receive medical services on an as-needed basis, and

“(B) pre-paid primary care services designed to screen for, diagnose, cure, mitigate, treat, or prevent disease and promote wellness.”.

(b) Exception for Flexible Spending Accounts.—Section 125 is amended by redesignating subsections (k) and (l) as subsections (l) and (m), respectively, and by inserting after subsection (j) the following new subsection:

“(k) Special Rule With Respect to Health Flexible Spending Arrangements.—For purposes of applying this with respect to any health flexible spending arrangement, amounts described in section 213(d)(14) shall not be considered insurance.”.

(c) Effective Date.—The amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.