

About Health Savings Accounts (HSAs)

For information about entering HSA data in TaxSlayer, refer to this document on CTC Resources:

- [Reporting HSA Data in TaxSlayer](#)

For more information about HSAs, see [IRS Publication 969, Health Savings Account and Other Tax-Favored Health Plans](#).

Background

A Health Savings Account (HSA) is a medical savings plan offered by some employers and available to individuals and families covered by a high deductible health plan (HDHP). An HDHP is health coverage with:

1. A higher annual deductible than typical health plans, and
2. A maximum limit on the sum of the annual deductible and out-of-pocket medical expenses that the taxpayer must pay for covered expenses. Out-of-pocket expenses include co-payments and other amounts, but do not include most premiums.

HSAs enable taxpayers to pay for current medical expenses and save for future qualified medical expenses on a tax-free basis. Funds in an HSA can remain in the account and are carried over, without limit, from year to year until the taxpayer uses them. Interest or other earnings on the assets in the account are tax-free. If the taxpayer is no longer an eligible individual (because they changed employers or are no longer enrolled in an HDHP), they can still receive distributions to pay or be reimbursed for qualified medical expenses.

Contributions to an HSA

Contributions made by the employer to the HSA during a tax year are shown on **Form W-2**, Box 12 using Code W. Contributions made by the taxpayer (or anyone other than the employer) are reported on **Form 5498-SA, HSA, Archer MSA, or Medicare Advantage MSA Information**. Contributions made by an employee (not an employer) may be claimed as a deduction in the current tax year in the expectation of using those funds for medical expenses to be incurred in future years.

Limits on Contributions

The amount the taxpayer or any other person can contribute to the taxpayer's HSA depends on the type of HDHP coverage, the taxpayer's age, the date the taxpayer became an eligible individual, and the date the taxpayer is no longer an eligible individual. In addition, the contribution limit for an HSA is reduced by employer contributions.

If the taxpayer was not an eligible individual for the entire year because they were enrolled in a high-deductible health plan for only part of the year, the contribution limits are determined by one of the following methods:

1. The “**last-month rule**” which allows eligible individuals to make a full contribution for the year even if they were not an eligible individual for the entire year if the following are true:
 - a. They are eligible individuals on the first day of last month of their taxable year (for most people this would be December 1); **AND**
 - b. They remain eligible individuals during the test period. The testing period runs from Dec 1 of the current year through December 31 of the following year (for calendar taxpayers)
2. If the taxpayer does not qualify to contribute the full amount for the year using option #1 above, the “**sum of the monthly contribution limits rule**” is used to determine the contribution limit. This determines the limit separately for each month based on eligibility and HDHP coverage on the first day of each month plus catch-up contributions. (See the Use Limitation Chart and Worksheet in the **Form 8889 Instructions.**) For this purpose, the monthly limits is 1/12 of the annual contribution limits, as calculated on the Worksheet.

HSA contribution limits are reduced by employer contributions. Excess contributions are included in income and are also subject to a 6% excise tax.

Distributions from an HSA

When a taxpayer pays medical expenses that are not covered by the HDHP, the taxpayer can request a tax-free distribution (or withdrawal) from their HSA in order to pay for or be reimbursed for medical expenses incurred after the taxpayer establishes the HSA. Distributions can also be amounts paid with a debit card that restricts payments to health care and amounts withdrawn from the HSA by other individuals that you have designated.

These distributions are nontaxable if they are used for qualified medical expenses (see below).

Distributions made during a tax year are reported to the taxpayer on **Form 1099-SA**, *Distributions from an HSA, Archer MSA, or Medicare Advantage MSA*.

Note: HSA distributions for non-qualified medical expenses are included as income on a tax return and are subject to an additional 20% tax unless the account beneficiary:

- Died during the tax year;
- Became disabled during the tax year (see Form 8889 Instructions); or
- Turned age 65 during the tax year

There are recordkeeping requirements for HSA distributions. See **IRS Publication 969** for details.

Qualified Medical Expenses

Qualified medical expenses are expenses that generally would qualify for the medical and dental expenses deduction (as on **Schedule A**, *Itemized Deductions*). Examples include unreimbursed expenses for doctors, dentists, and hospitals. A medicine or drug will be a qualified medical expense only if the medicine or drug:

- Requires a prescription;
- Is available without a prescription (an over-the-counter medicine or drug) and the taxpayer gets a prescription for it; or

- Is insulin

Qualified insurance premiums for HSA purposes are different than premiums that qualify as a medical expense on **Schedule A**. Insurance premiums are not qualified medical expenses unless the premiums are for:

- Long-term care insurance based on premium limits shown in the Instructions for **Schedule A**
- Health care continuation coverage, such as coverage under COBRA
- Health care coverage while receiving unemployment compensation
- Medicare and other health care coverage if the taxpayer was 65 or older (other than premiums for a Medicare supplemental policy, such as Medigap)

Medical expenses in excess of those paid with HSA funds may be included as itemized deductions on the taxpayer's **Schedule A**. For more info, see **IRS Publication 502, Medical and Dental Expenses**.

Whose Medical Expenses May be Included?

Taxpayers who have a self-only HDHP may use the money in their HSA to pay the unreimbursed medical expenses for their spouse or other family members. These are qualified expenses if they are incurred for:

1. The taxpayer or spouse
2. All dependents claimed on the tax return
3. Any other person who could have been claimed as a dependent on the taxpayer's return except that:
 - a. The person filed a joint return;
 - b. The person had gross income equal to the exemption amount or more; or
 - c. The taxpayer or spouse (if filing jointly) could be claimed as a dependent on someone else's tax return.

Note: A child of parents who are divorced, separated, or living apart for the last six months of the calendar year is treated as the dependent of both parents (for medical expenses) whether or not the custodial parent releases the claim to the child's dependency.

When Must the Expenses Have Been Incurred?

Expenses incurred before establishing an HSA are not qualified medical expenses. If a taxpayer is considered to be an eligible individual for the entire year under the last-month rule, only those expenses incurred after actually establishing the HSA are qualified expenses.

What HSA Circumstances Are Out of Scope for VITA?

The following are not in scope for VITA and Special Tax Services will not accept these returns. The taxpayer should be referred to an outside preparer using the We Cannot Prepare Your Return handout in [\[English\]](#) and [\[Spanish\]](#) on CTC Resources.

- Excess contributions to an HSA that are not withdrawn in a timely fashion
- Qualified HSA funding distributions from an IRA
- Death of an HSA holder when spouse is not the designated beneficiary
- Additional Tax for Failure to Maintain HDHP Coverage

- Deemed distributions from an HSA due to prohibited transactions, such as using an HSA as a security for a loan
- Archer Medical Saving Accounts (MSA)
- Medicare Advantage MSA
- Health Reimbursement Arrangement