

# Health Savings Accounts (HSAs) Tax Year 2009

A health savings account (HSA) is a tax-exempt trust or custodial account that you set up with a qualified HSA trustee to pay or reimburse certain medical expenses you incur. You must be an eligible individual to qualify for an HSA.

No permission or authorization from the IRS is necessary to establish an HSA. When you set up an HSA, you will need to work with a trustee. A qualified HSA trustee can be a bank, an insurance company, or anyone already approved by the IRS to be a trustee of individual retirement arrangements (IRAs) or Archer MSAs. The HSA can be established through a trustee that is different from your health plan provider.

## ***What are the benefits of an HSA?***

- 1) You can claim a tax deduction for contributions you make to your HSA even if you do not itemize your deductions on Form 1040.
- 2) The contributions remain in your account from year to year until you use them.
- 3) The interest or other earnings on the assets in the account are tax free.
- 4) Distributions may be tax free if you pay qualified medical expenses.
- 5) An HSA is "portable" so it stays with you if you change employers or leave the work force.

***Qualifying for an HSA*** To be an eligible individual and qualify for an HSA, you must meet the following requirements.

- You have a QUALIFIED high deductible health plan (HDHP), described later, on the first day of the month.
- You have no other health coverage except what is permitted under *Other health coverage*, later.
- You are not enrolled in Medicare.
- You cannot be claimed as a dependent on someone else's 2008 tax return.

If you meet these requirements, you are an eligible individual even if your spouse has non-HDHP family coverage, provided your spouse's coverage does not cover you. Each spouse who is an eligible individual who wants an HSA must open a separate HSA. You cannot have a joint HSA.

***High deductible health plan (HDHP).*** An HDHP has:

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

Self-only HDHP coverage is an HDHP covering only an eligible individual. Family HDHP coverage is an HDHP covering an eligible individual and at least one other individual (whether or not that individual is an eligible individual).

**Other health coverage.** You (and your spouse, if you have family coverage) generally cannot have any other health coverage that is not an HDHP. However, you can still be an eligible individual even if your spouse has non-HDHP coverage provided you are not covered by that plan. However, you can have additional insurance that provides benefits only for the following items.

- Liabilities incurred under workers' compensation laws, tort liabilities, or liabilities related to ownership or use of property.
- A specific disease or illness.
- A fixed amount per day (or other period) of hospitalization.
- Accidents.
- Disability.
- Dental care.
- Vision care.
- Long-term care.

**Contributions to an HSA** Any eligible individual can contribute to an HSA. For an HSA established by a self-employed (or unemployed) individual, the individual can contribute. Family members or any other person may also make contributions on behalf of an eligible individual. Contributions to an HSA must be made in cash. Contributions of stock or property are not allowed. You have until the Tax return due date to make your HSA deposit.

**Limit on contributions.** The amount you or any other person can contribute to your HSA depends on the type of HDHP coverage you have and your age. For 2009, if you have self-only coverage, you can contribute up to the maximum allowed amount of \$3000 per year. If you have family coverage (two or more family members), you can contribute up to the maximum allowed amount of \$5950 per year. For 2009, you only have to be covered by the plan for one month to qualify for the full annual deduction. **IMPORTANT NOTE: If you do fund for the full year and you were NOT covered by the HDHP for the full year, you will be required to carry the HDHP for at least the next full tax year. If you do not, you will be disallowed the back contributions and face potential penalties on this amount.**

**Additional contribution.** For 2009, if you are an eligible individual who is age 55 or older, your contribution limit is increased by \$1000. For example, if you have self-only coverage, you can contribute up to the IRS maximum of \$3000 plus \$1000. For Family coverage you can contribute up to the IRS maximum of \$5950 plus \$1000. There are also allowances to transfer employer sponsored FSA or HRA funds to your individual HSA. Please check with your tax professional for the IRS guidelines if you are considering this option.

**Distributions From an HSA** You will generally pay medical expenses during the year without being reimbursed by your HDHP until you reach the annual deductible for the plan. When you pay medical expenses during the year that are not reimbursed by your HDHP, you can pay those expenses from your HSA. You can receive tax-free distributions from your HSA to pay or be reimbursed for qualified medical expenses you incur after you establish the HSA. If you receive distributions for other reasons, the amount you withdraw will be subject to income tax and will be subject to an additional 10% tax. You do not have to make distributions from your HSA each year. If you are no longer an eligible individual, you can still receive tax-free distributions to pay or reimburse your qualified medical expenses.

A distribution is money you get from your health savings account. The trustee will report any distribution to you and the IRS on Form 1099-SA, Distributions From an HSA, an Archer MSA, or Medicare Advantage MSA.

**Qualified medical expenses.** Qualified medical expenses are those expenses that would generally qualify for the medical and dental expenses deduction. These are explained in IRS Publication 502, Medical and Dental Expenses. Examples include amounts paid for doctors' fees, prescription and non-prescription medicines, and necessary hospital services not paid for by insurance. I would highly recommend you review Publication 502 to familiarize yourself with the qualified medical expenses. You can get a copy by going to [www.irs.gov](http://www.irs.gov) and downloading it, or you can order one by calling 1-800-829-3676 and requesting one be mailed to you.

**Recordkeeping.** You must keep records sufficient to show that:

- The distributions were exclusively to pay or reimburse qualified medical expenses,
- The qualified medical expenses had not been previously paid or reimbursed from another source, and
- The medical expenses had not been taken as an itemized deduction in any year.

Do not send these records with your tax return. Keep them with your tax records.

### **Reporting Distributions on Your Return**

How you report your distributions depends on whether or not you use the distribution for qualified medical expenses (defined earlier).

- If you use a distribution from your HSA for qualified medical expenses, you do not pay tax on the distribution but you have to report the distribution on Form 8889. Follow the instructions for the form and file it with your Form 1040.
- If you do not use a distribution from your HSA for qualified medical expenses, you must pay tax on the distribution. Report the amount on Form 8889 and file it with your Form 1040. If you have a taxable HSA distribution, include it in the total on Form 1040, line 21, and enter "HSA" and the amount on the dotted line next to line 21. You may have to pay an additional 10% tax on your taxable distribution.

**Additional tax.** There is an additional 10% tax on the part of your distributions not used for qualified medical expenses. **Exceptions.** There is no additional tax on distributions made for non-qualified medical expenses after the date you are disabled, reach age 65, or die.

**Balance in an HSA** An HSA is generally exempt from tax. You are permitted to take a distribution from your HSA at any time; however, only those amounts used exclusively to pay for qualified medical expenses are tax free. Amounts that remain at the end of the year are generally carried over to the next year. Earnings on amounts in an HSA are not included in your income while held in the HSA.

**How can I establish an HSA?** Remember, you must first establish a qualified High Deductible Health Plan. There are specific requirements for these plans so be sure your plan is qualified. Not every financial institution offers a Health Savings Account. You cannot simply open a checking account and designate it as a Health Savings Account.

Currently, we know of three options for you.

**HSA Bank:** Information can be found at [www.hsabankusa.com](http://www.hsabankusa.com) or by calling 1-800-357-6246.

**M&I Bank:** Information and enrollment materials can be obtained by calling any branch.

**Wells Fargo Bank:** Information and enrollment can be obtained by calling 1-866-890-8309.

**Chase Bank:** Information and enrollment can be obtained by calling 1-877-807-0206.

These are not the only options available so please check with your bank or financial institution if you do not see it listed below.

**Other Important Publications or readings:**

**IRS Publication 502, Medical & Dental Expenses.** This is a complete list of eligible expenses you can pay with HSA funds.

Locate at [www.irs.gov](http://www.irs.gov) or call 1-800-829-3676

**Publication 969, Health Savings Accounts and Other Tax-Favored Health Plans.** An excellent step by step explanation of HSA's.

Locate at [www.irs.gov](http://www.irs.gov) or call 1-800-829-3676

**Form 8889, Health Savings Accounts.** This is the form you must file with your 1040 each year while covered by a HDHP and HSA.

Locate at [www.irs.gov](http://www.irs.gov) or call 1-800-829-3676

**U.S. Treasury Web Site.** This site has a number of useful publications regarding HSA's. I would recommend the HSA Basics, their tri-fold brochure

Locate at [www.treasury.gov/offices/public-affaires/hsa/](http://www.treasury.gov/offices/public-affaires/hsa/)

As always, you should consult with your CPA or tax advisor before establishing a Health Savings Account. The information provided is not deemed to be Tax or Legal advice. The amount of your savings will depend on your taxable income and ultimate tax bracket.

**For additional questions, please feel free to call our office at 480-820-6643 or you can email your specific HSA questions to us at [Larry@Legins.net](mailto:Larry@Legins.net).**

**Provided by Larry E Gustafson, Inc (480) 820-6643**