ST13-14 Health Savings Accounts (HSA)

Tax Law

Overview

A health savings account (HSA) is a tax-favored medical savings account available to taxpayers. HSAs enable taxpayers to pay for current medical expenses and save for future qualified medical expenses on a tax-free basis.

Contributions are reported on Form 5498-SA issued by HSA trustee.

Distributions reported on Form 1099-SA issued by HAS trustee

An HSA is created by:

- Enrolling in a High-Deductible Health Plan (HDHP) and then
- Opening a tax-exempt trust or custodial account, with a qualified HSA trustee, to pay for qualified medical expenses

References

- IRS Publication 969 Health Savings Accounts and Other Tax-Favored Health Plans
- IRS Instructions for Form 5498
- IRS Publication 4942 VITA/TCE Specialty Courses
- HAS Helpful Hints on page E-1 of 2013 4012
- Screening Sheet for HSAs on page E-2 of 4012.

HSA Benefits

There are several benefits from having an HSA including the following:

- Amounts contributed to an HSA, except for employer contributions, can be used as an adjustment to income.
- Contributions to an HSA by an employer may be excluded from gross income; this includes contributions made through a Section 125 cafeteria plan.
- The contributions remain in the account and are carried over, without limit, from year to year until the taxpayer uses them.
- The interest and other earnings on the assets in the account are tax-free.
- Distributions will be tax-free if used to pay unreimbursed qualified medical expenses.
- An HSA is portable, so it stays with taxpayers even if they change employers or leave the work force.

Individuals Who Qualify for an HSA

To be an eligible individual and qualify for an HSA, the taxpayer must meet the following requirements:

- Be covered by a high-deductible health plan (HDHP) on the first day of the month
- Not be covered by other health insurance (see Publication 969 for exceptions)
- Not be enrolled in Medicare (the individual can be HSA-eligible for the months before being covered by Medicare)
- Not be eligible to be claimed as a dependent on someone else's tax return (applies even if the person can claim the individual but does not)

Rules for Married Individuals

In the case of married individuals, each spouse who is an eligible individual who wants to have an HSA must open a separate HSA. Married couples cannot have a joint HSA, even if they are covered by the same HDHP; however, distributions can be used to cover the qualified expenses of the other spouse.

Contributions to HSA

Any eligible individual can contribute to an HSA. For an employee's HSA, the employee, employer, or both may contribute to the employee's HSA in the same year. For an HSA established by a self-employed (or unemployed) individual, the individual can contribute.

Family members or any other person may also contribute on behalf of an eligible individual. Contributions to an HSA must be made in cash. Contributions of stock or property are not allowed.

Employer Contributions

Employer contributions (including an employee's contribution through a cafeteria plan) are allowed to be made to an employee's HSA. Generally, employer contributions are excludable from an employee's income. Taxpayers must reduce the amount they, or any other person, can contribute to their HSA by the amount of any contributions made by the taxpayer's employer that are excludable from income. This includes amounts contributed to the taxpayer's account by the employer through a cafeteria plan. For example, in 2013, if the employer contributed $1,000 to a taxpayer's HSA who had a self-only HDHP, the remaining contribution limit would be $2,250.

Health Savings Account (HSA) Contribution Limits for TY2013

The annual limit on deductions for HSAs is :

- $3,250 for self-only coverage younger than 55 at the end of the year
- $4,250 for self-only coverage older than 55 at the end of the year
- $6,450 for family coverage younger than 55 at the end of the year
- $7,450 for family coverage older than 55 at the end of the year

Distributions

Taxpayers can take distributions for qualified medical expenses not reimbursed by their HDHP Insurance. Qualified medical expenses include doctors, dentists, hospitals, medicine or drug if:

- 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

Taxpayers who have taken distributions will receive Form 1099-SA from trustee and must provide it before a return can be completed.

A taxpayer cannot treat insurance premiums as qualified medical expenses unless the premiums are for:

- Long-term care insurance based on premium limits shown in the Volunteer Resource Guide, Important Tax Law Changes for 2013, or the Instructions for Schedule A, Itemized Deductions
- 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)

Qualified medical expenses are those incurred by the following persons:

- The taxpayer and spouse
- All dependents claimed on the tax return
- Any other person who could have been claimed as a dependent on the taxpayer's return except that:
    - The person filed a joint return
    - The person had gross income of the exemption amount or more, or
    - The taxpayer or spouse (if filing jointly) could be claimed as a dependent on someone else's tax return

Taxpayers who have taken distributions will receive Form 1099-SA from trustee and must provide it before a return can be completed

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Reporting

Before completing form 5498-SA, interview the client using the Screening Sheet for HSAs on page E-2 of the 4012.

Form 5498-SA
Form 5498-SA shows the amount contributed during the year for any HSA. It includes both employer and employee contributions.
In addition to being included on Form 5498-SA, employer contributions will also be shown on Form W-2, box 12, with code W.

Excess contributions are out of scope.

Form 1099-SA
Form 1099-SA reports distributions to a taxpayer. Box 5 will indicate whether the distribution is from an HSA, Archer MSA, or a Medicare Advantage MSA. The code in Form 1099-SA, box 3, identifies the distribution the taxpayer received. Code 1 is a normal distribution. Refer to Form 1099-SA for an explanation of the other codes.

Form 8889, Health Savings Accounts (HSA)

A taxpayer must file Form 8889 with Form 1040 if the taxpayer (or spouse if filing a joint return) had any activity in an HSA. This is true even if only the taxpayer's employer or the spouse's employer made contributions to the HSA.

Taxpayers who are filing jointly and who each have separate HSAs will each complete a separate Form 8889. Married taxpayers cannot have a joint HSA.

Ask taxpayers during the interview process if their HDHP coverage is "self-only" or "family," and check the corresponding box on Form 8889

Part 1
Form 8889, Part 1, is used to report all HSA contributions and to compute the allowable HSA deduction.

The entry of code W and the amount in box 12 of Form W-2 will generate Form 8889 with employer contributions shown.

After all other entries have been completed on Part I, the HSA deduction will be carried from Form 8889 to the Adjusted Gross Income section of Form 1040.

Part 2
Form 8889, Part II, is used by taxpayers to report distributions from an HSA.

Form 1099-SA reports distributions to a taxpayer. Box 5 will indicate whether the distribution is from an HSA, Archer MSA, or a Medicare Advantage MSA. The code in Form 1099-SA, box 3, identifies the distribution the taxpayer received. Code 1 is a normal distribution. Refer to Form 1099-SA for an explanation of the other codes.

If distributions are received for reasons other than qualified medical expenses, the amount withdrawn will be included in income and reported on Form 1040, line 21. The additional tax on distributions not used for qualified medical expenses is 20%. See below for exceptions to the additional tax. This tax is computed on Form 8889 and reported on Form 1040.

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Amounts entered on Form 8889 are automatically carried over to the applicable lines of Form 1040. The amount of HSA distributions not used for qualified medical expenses will carry over to 1040 Wkt 7 and then to line 21. On the line for "Type," enter HSA. If you have more than one item to enter on line 21, see the Volunteer Resource Guide, TaxWise Income Tab, How/Where to Enter Income, for guidance.

Part 3

Out of Scope

Completing Form 8889

Top of Form – Check Taxpayer or Spouse – TaxWise creates the 8889 when a code W amount is entered in box 12 of the W-2, but does not check the form for taxpayer or spouse.

Part 1 Contributions

Line 1 – Ask the taxpayer is their HAS is Self only or Family and check the appropriate box

Line 2 – Enter all of the employee's contributions including those made from 1/1/14 to 4/14/14 that were for 2013. If the taxpayer has not yet received Form 5498-SA, they need to tell you the amount of their contribution.

Line 3 is calculated – If the taxpayer is in a Self only pan and is 55 or older the additional $1000 contribution amount is incorporated on this line. If the taxpayer is married and in a Family plan and is 55 or over, the additional $1000 is not included here but is added in on line 7.

Line 4 – Out of scope – If the taxpayer has an Archer MSA the entire return is out of scope

Line 5 – Calculated

Line 6 – Enter the amount from line 5 unless you are married and both you and your spouse have Family plans. If you are treated as having family coverage for each month, divide the amount on line 5 equally between you and your spouse, unless you both agree on a different allocation (such as allocating nothing to one spouse). Enter your allocable share on line 6. If you are not treated as having family coverage for each month, see Form 8889 instructions page 4 for instructions on how to calculate the amount to enter on line 6.

Line 7 - If you were age 55 or older at the end of 2013, married, and you or your spouse had family coverage under a high deductible health plan at any time during 2013, enter the additional contribution amount. .Enter the number of months you or your spouse had family coverage under a high deductible health plan and were, or were considered to be an eligible individual on the first day of the month, and were not enrolled in Medicare for the month.

Line 8 – Calculated

Line 9 – Calculated from W-2, Box 12, Code W.

Line 10 – Calculated

Line 11 – Calculated

Line 12 – Calculated

Line 13 – Calculated – If the taxpayer has excess contributions and did not withdraw them in a timely manner, the return is OUT OF SCOPE. Conditions for a timely manner withdrawal are:

- You withdraw the excess contributions by the due date, including extensions, of your tax return for the year the contributions were made.
- You withdraw any income earned on the withdrawn contributions and include the earnings in "Other in-come" on your tax return for the year you withdraw the contributions and earnings.

Part 2 Distributions

Line 14a – Total distributions received in 2013 from form 1099-SA with the HSA box checked. If the HSA box is not checked, the return is OUT OF SCOPE.

Line 14b – Distributions included in line 14b that were rolled over into another HSA and excess contributions and the earnings on these excess contributions that were included on line 14a but were withdrawn in a timely manner.

Line 14c – Calculated

Line 15 – Enter unreimbursed qualified medical expenses. Suggest using a scratch pad. Do not exceed the amount on line 14c.

Line 16 – Calculated – If there is an amount in this line it will go to 1040 Wkt7 line 12 and 1040 line 21.

Line 17a - Check the box if the account beneficiary:

- Dies,
- Becomes disabled or
- Turns age 65

Line 17b – Calculated – If there is an amount on this line it will go to 1040 Line 60.

Worksheet for Deductible Contribution Amounts - If the taxpayer fails to remain an eligible individual during the testing period or changes from self-only to family coverage during the year, use the worksheet below. See the Form 8889 instructions or Publication 969.

Part 3 Income and Additional Tax for Failure to Maintain HDHP Coverage

OUT OF SCOPE.

Reporting HSA amounts on the NJ 1040.

To be completed at a later date.