HEALTH SAVINGS ACCOUNTS

Health Savings Accounts (HSAs) are tax-advantaged accounts for qualified medical expenses. Contributions are tax-deductible if made by the owner or someone else on the owner's behalf. The contributions are also usually excludable from taxable income if made by an employer.

Distributions are tax-free if used to pay or reimburse qualifying expenses. Interest and other account earnings are also exempt. Once established, accounts may be carried over to future years, even if the owner is no longer eligible to make contributions.

This Tip Sheet provides guidance for on how to prepare *Form 8889*, the principal responsibility of tax counselors doing HSA returns. *Form 8889* must be filed for any year in which there were HSA contributions or distributions. It does more than just report the total of these transactions; it also calculates limits on individual contributions and deductions and indicates when there might be penalties for excess contributions or unqualified distributions. TaxSlayer (TSO) does the calculations on *Form 8889* but tax counselors must enter several amounts; some are easy to determine but some are not.

- Tax counselors should also have knowledge of HSA eligibility requirements and the definition of qualifying expenses.
- In addition, they should be aware of situations that are Out-of-Scope.
- There are 4 training videos dealing with HSA issues: HSA Introduction, HSA Data Entry, HSA Contributions and HSA Distributions. Links to these videos are in Index of NTTC Training Videos on the TaxAideDC.org website.

ELIGIBILITY TO MAKE CONTRIBUTIONS

An HSA can be set up and contributions made to it when the account owner has a high deductible health plan (HDHP) on the first day of a month during the tax year. For Tax Year 2023, the minimum annual deductible for an HDHP was $1,500 for self-only coverage and $3,000 for family coverage. The maximum annual deductible and limit on other out-of-pocket expenses was $7,500 and $15,000 respectively for individual and family. If the plan has a network of providers, the latter limits apply only to expenses within network.

In addition, to make contributions account owners:

- can have no other coverage including Medicare for months they contribute with some exceptions (these are spelled out on pages 4-5 of IRS *Publication 969, Health Savings Accounts and Other Tax-Favored Health Plans*),
- cannot be claimed as a dependent on someone else's tax return.

Note that the HDHP may provide preventive care without a deductible. What is considered to be preventive care is discussed on pages 3-4 of *Publication 969* and the *IRS Notices* mentioned there. Sometimes what are commonly called treatments are classified as preventive care (for example, insulin).

Each spouse who is an eligible individual who wants an HSA must open a separate HAS and make contributions. There are no joint-HSAs.

It is the responsibility of the taxpayers to know what coverage they have, but tax counselors should know the basic rules and where to look for further guidance.

Contributions

For Tax Year 2023, annual HSA contributions were generally limited to $3,850 for self-only HDHP coverage and $7,750 for HDHP family coverage, plus $1,000 more if age 55 or older. These limits apply to the *sum of contributions made by account owners and employers*; thus, the latter must be subtracted from the limits just mentioned to find out what account owners may contribute. Contributions made by family members and other individuals are considered as if made by the account owner. Contributions for a tax year (e.g., 2023) from either individuals or employers may be made until the normal filing date for that year's tax return, April 15th of the following year (i.e., 2024).

Tax Year 2021 Contribution Limits	
Self-only Coverage	Family Coverage
$3,850	$7,750
Add $1,000 if age 55 or above	

- Total contributions for a calendar year will appear on *Form 5498-SA*, which the trustees of the accounts (for example, banks or mutual funds) must send each year to account owners. The form will also show rollover contributions and the fair market value of the account.
- Note that contributions made in 2024 for tax year 2023 may not be shown on Forms 5498-SA for the year since they will be sent out before April 15th. Ask the taxpayer.

Distributions

Distributions from HSAs are exempt from taxation if used to pay or reimburse qualified medical expenses. Other withdrawals except for rollovers to other HSAs generally must be included in taxable income and are subject to a 20% penalty. Exceptions apply if the account owner dies, becomes disabled, or turns age 65. Taxpayers should have received a 1099-SA statement showing total distributions for the year.

TaxSlayer Entries for Contributions and Distributions

The HSA videos referenced above give a good look at TaxSlayer HAS data entry.

For written information, pages E-10 – E-14 of *Publication 4012 with NTTC Modifications* documents the HSA rules. Page E-12 covers the data entry process for recording contributions and page E-13 covers the data entry process for recording HSA distributions. Note that there are data entry fields shown for two out-of-scope situations, as noted on page E-12. Page E-14 details allowable expenses.

Qualified medical expenses include payments for eligible items for a number of people other than the account owner. These include:

- the account owner's spouse,
- dependents claimed on the owner's tax return, and
- any person who *could* have been claimed on the return except that
  - that person filed a joint return,
  - the person had a gross income of $4,700 or more, or
  - the owner (and the spouse if filing jointly) could be claimed as a dependent on someone else's 2023 return.

Out-of-Scope Situations

The *Scope Manual Tax Year 2023, page 17,* lists HSA situations that are Out-of-Scope. When working on returns, tax counselors should confirm that the list has not changed.

The *Scope Manual* also indicates that Archer Medical Savings Accounts (MSAs), Medicare Advantage MSAs, and Health Reimbursement Arrangements are Out-of-Scope.

In addition to these situations, employer payments made with after-tax dollars (i.e., amounts that are not excludable) should be considered Out-of-Scope since it is not clear how they are or should be entered on *Form 8889*.

As a general rule, AARP tax counselors should not complete returns for taxpayers who do not have statements or other suitable records of contributions. Whether records of how distributions were used are adequate should also be taken into consideration.