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HSAs and Your Taxes

This page covers such things as reporting HSA income on your tax return, important forms to submit and how individual HSA contributions are treated on your tax return.

HSAs and your taxes

When being reimbursed from your HSA for eligible medical expenses, you do not pay tax on the withdrawal. You must pay income taxes plus an additional tax of 20 percent on any HSA amount used for non-eligible medical expenses, unless you're disabled, age 65 or older or die during the year. If you become disabled or reach age 65, withdrawals can be made for non-medical reasons without penalty, but amounts must be reported as taxable income. If withdrawals for the year are less than or equal to the eligible medical expenses that were paid, there are no tax requirements on those withdrawals.

Reporting HSA income on your tax return

You will receive the following IRS forms from Further:

- Form 1099-SA mailed from Further reports any withdrawals made in a tax year by January 31 each year.
- Form 5498-SA mailed from Further by May 31 each year reports contributions made for a specific tax year.

You are responsible for keeping records to support withdrawals and to complete Form 8889 and attach it to Form 1040.

In addition to the required government forms (Form 5498-SA and Form 1099-SA), there are several reports Further provides to assist you with your tax obligations:

- Verification Form – You'll receive a confirmation packet when Further processes your HSA application. It provides information on how to receive reimbursements and make deposits.
- Annual Statement – Go online to view your statement following the end of the calendar year verifying the contributions received, withdrawals made and account balance. You can view the status of your account anytime at www.hellofurther.com.
- Explanation of Payment – This statement details the results of all withdrawals (payments) and also includes information about your HSA balance. This statement is available when you sign into your account at www.hellofurther.com. In rare situations, you may receive a paper version of this statement.

Health savings accounts offer deductions on federal income tax for any deposits made to the account. Most states also offer the same deductions on state income taxes. However, since HSAs were set up as a federal program, the individual states can choose to comply with the federal guidelines concerning tax treatment of HSAs, or establish their own rules. At the time this guide was prepared, the states of Alabama, California, and New Jersey did not allow an HSA tax credit for state income taxes. New Hampshire and Tennessee tax HSA earnings (interest and dividends). Be sure to check with your tax advisor to determine your state's current status and guidance in preparing your tax returns.

IRS reporting requirements

- The IRS states that HSA contributions and withdrawals are reportable transactions. Tax deductions are generally available either to the eligible individual and/or the employer. Withdrawals from HSAs for eligible medical expenses will avoid income tax consequences to the HSA holder. That's why the IRS requires these withdrawals to be reported. To make reporting withdrawals easier, the IRS offers forms to be used by the parties involved.
- Regardless of whether HSA contributions are made by you or your employer, the contributions must be reported on your tax return. Contributions to and withdrawals from HSAs are reported by the account holder on Form 8889.
- The employer is required to report employer HSA contributions to the IRS on the tax return that is filed by the employer. Employer HSA contributions, including employee pretax contributions through a cafeteria plan, are also reported on the W-2 (Box 12, code W) for each employee.

HSA information in this guide is not intended as legal or tax advice. HSAs are authorized by federal legislation.

State and/or federal laws could be passed in the future that affect the tax benefits of an HSA. Tax benefits may also be affected by failure to comply with eligibility and withdrawal requirements. Refer specific questions about federal and state tax ramifications, as they relate to a particular circumstance, to your tax advisor each year.

How individual HSA contributions are treated on your tax return

Contributions made by an eligible individual to an HSA are deductible in computing your federal adjusted gross income. The contributions are deductible whether or not you itemize deductions. A self-employed person's HSA contributions are subject to SECA taxes (the Social Security taxes applicable to the self-employed).

Contributions made by an employer or employee through a cafeteria plan are excluded from federal gross income, are not subject to withholding for federal income tax and are not subject to other employment taxes (for example, Social Security tax). Even though not taxable to the employee, employers are required to report the amount of the HSA contribution on the employee's W-2. An employee who elects to make HSA contributions under a cafeteria plan may start or stop the election or increase or decrease the amount at any time as long as the change is effective prospectively (that is, after the request for the change is received).

Additional rules regarding tax treatment of your HSA dollars include:

- **Tax treatment of earnings on amounts in an HSA** – Earnings on amounts contributed to an HSA are generally not taxable to the HSA holder. At the time this guide was prepared, New Hampshire and Tennessee tax HSA earnings (interest and dividends), but not eligible contributions.
- **Withdrawals from an HSA** – There is no restriction on when and how often you may request withdrawals from the HSA. When you or your dependents incur an eligible medical expense, a withdrawal from the HSA may be made to reimburse you for the expense.
- **Non-eligible withdrawals** – Withdrawals that are not for eligible medical expenses are always included in your gross income. In addition, such withdrawals are generally subject to an additional 20 percent penalty, unless the withdrawal is made after death, disability or reaching age 65.

HSA legislation and tax advantages are based on federal law. Almost all states with a state income tax follow the federal tax treatment. At the time this guide was prepared, only Alabama, California and New Jersey were believed to include HSA contributions in gross income for state income taxes. Further does not provide tax advice. You should rely on your own tax professional for more information on your state's tax requirements and your tax preparation.

Frequently asked questions

Q: **Can withdrawn excess contributions be claimed as a deduction on Form 1040?**

A:

No. When withdrawing excess contributions, you must inform Further that the withdrawal is for that purpose. Further will compute the earnings on the excess contributions for you. The total withdrawal will include the earnings portion.

If contributions are made with pretax dollars, then both the withdrawal and earnings are included in your taxable income. The withdrawal for excess contributions and the earnings will be reported to the account holder on IRS Form 1099-SA.