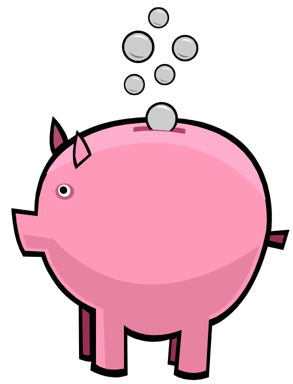
Health Savings Account (HSA) Basics



What:

In a nutshell, a Health Savings Account (HSA) is a custodial savings account set up to pay or reimburse medical expenses for the taxpayer, the taxpayer's spouse, and dependents. Amounts paid into the account are tax deductible and the earnings grow tax-free. Withdrawals for qualified medical expenses are tax-free.

Who qualifies?

To contribute to a HSA for tax year 2021, a taxpayer must:

- Be covered by a HSA compatible, high deductible, health plan. If you don't know if your health plan is compatible then ask your insurance provider.
- Not have other health coverage other than disability, dental, vision, or long term care.
- Not be enrolled in Medicare.
- Not be a dependent of another taxpayer.

Contribution limits:

For 2021:

- Contributions are limited to $3,600 for a single policy and $7,200 for a family policy.
- Taxpayers age 55 or over at the end of the year can contribute an extra $1,000.
- The taxpayer's contribution can be made by the taxpayer, an employer, or someone else.

For 2022:

- Contributions are limited to $3,650 for a single policy and $7,300 for a family policy.

Distributions:

- Funds distributed from a HSA to cover qualified deductible medical expenses are not taxed. Qualified distributions are reported on your tax return so always save your medical receipts in case you are audited.
- Distributions for reasons other than qualified deductible medical expense are taxed. They are also subject to a 20% penalty if the taxpayer is under 59½.

Advantages & Tips:

- Medical expenses on Schedule A are only deductible to the extent they exceed 7.5% of a taxpayer's income. A HSA account allows a medical deduction (from dollar one spent) even if the taxpayer does not itemize.
- Contributions remaining in the account at year-end roll over to the next year to be used, not lost like flexible spending arrangements (FSAs).
- Earnings in the HSA are not taxed.
- Medical expenses paid with non-HSA funds can be reimbursed from the HSA at a later date (as long as the expense was incurred after the date the HSA account was originally set-up and funded). Because HSA earnings are not taxed, your money could grow tax free while you wait to reimburse yourself.
- Annual contributions to the HSA can be made up to the due date of the tax return (not including extensions). Making such 'top-up' contributions will save tax dollars in years when you contributed less than the annual limit.