

# Health Savings Accounts, from a Tax Perspective

Save it. Use it. Never lose it.®

## Triple tax savings

- Pre-tax contributions
- Tax-free interest and investment earnings
- Tax-free payments for qualified medical expenses

## Tax advantages of an HSA

Health Savings Accounts (HSAs) can offer you multiple tax-savings benefits. HSAs can be a smart choice for taking care of medical expenses today and saving for payment of unreimbursed health care expenses in the future on a tax advantaged basis.

### Tax-free contributions

Your HSA contributions are made with before-tax dollars; they are not subject to federal income tax. The contributions are deductible on your federal tax return. State taxes on HSAs are also waived in most states. Check with your tax advisor for your specific state's HSA regulation.

### Tax-free earnings

Any investment earnings in your HSA account grow tax-free, including dividends, interest and capital growth.

### Tax-free distributions

An HSA enables you to make tax-free payments for qualified medical expenses, including some that are not typically covered by insurance or Medicare. This means you reduce your current taxes, have potential to achieve earnings on your contributions and you pay no taxes on the amounts withdrawn to pay for the qualified medical expenses. These include nursing home care, premiums for long-term care insurance, prescription drugs, vision care, orthodontia, chiropractic treatment and more. For a list of qualified expenses, visit [www.irs.gov/pub/irs-pdf/p502.pdf](http://www.irs.gov/pub/irs-pdf/p502.pdf).

## Use your HSA for yourself, your spouse or qualified dependents

You can take tax-free distributions for qualified medical expenses for yourself, your spouse and any qualified dependents. And, if you die, your HSA balance can be transferred to your spouse without any taxes due.

An HSA is a tax benefit, so you need to maintain accurate records of any payments you make. The IRS requires that you keep receipts for qualified medical expenses. You don't have to send them with your tax return, but if you are ever audited, you will need to produce them.

## Additional tax benefits through payroll

You can realize additional tax savings by making your HSA contributions through payroll. Contributions are not subject to the Federal Insurance Contributions Act (FICA) and the Federal Unemployment Tax Act (FUTA) taxes, which amounts to a typical savings of 7.65% subject to limits of the Social Security Wage Base.

## Your HSA is portable

Even if you change jobs or retire, your HSA stays with you. If you are no longer enrolled in a high-deductible health plan, you won't be able to continue to contribute to your HSA, but you can still use the existing funds tax-free for qualified medical expenses.

## Tax forms for you HSA

There are a number of tax forms involved in managing your HSA.

IRS Form	Sent	Purpose
1099-SA	End of January	Reflects all distributions from your HSA for the previous tax year.
5498-SA	End of May	Shows your total prior-year contributions, which can be made up until the federal tax filing deadline (typically April 15).

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## Funds in your HSA don't expire

Whether you have qualified medical expenses or not, the funds in your HSA roll over and continue to accumulate each year. So, instead of spending all of your money each year, you can save the money for future medical expenses.

## What you need to know

HSAs offer a number of tax benefits. Here are some general tax guidelines to consider when contributing to and receiving distributions from an HSA.

### Contribution tax considerations

- Payroll deductions for contributions to an HSA are pretax and reduce the amount of your taxable income.
- Contributions made by your employer on your behalf are excluded from your gross income.
- You can make tax-free contributions to an HSA as long as you are enrolled in a qualified high-deductible health plan or until you enroll in Medicare.
- Any earnings in an HSA accumulate tax-free provided you use them to pay for qualified medical expenses.
- Unlike IRA contributions, your HSA contributions are tax deductible regardless of your income, tax-return filing status or employment status.
- If you directly contribute to your HSA (outside of payroll), you can take an HSA deduction on your federal and possibly state income tax returns.
- If you are 55 years or older, you can make an additional \$1,000 annual catch-up contribution to your HSA.

### Distribution tax considerations

- You can take tax-free distributions for qualified medical expenses for you, your spouse and any dependents at any time, including after age 65. See IRS Publication 502, available at [www.irs.gov](http://www.irs.gov).
- If you use distributions before age 65 for nonqualified medical expenses, those withdrawals are subject to ordinary income tax plus an additional 20% federal excise tax (although the additional 20% tax will not apply under certain circumstances).
- After age 65, you can withdraw funds for non-medical expenses and only pay ordinary income taxes.

- Unlike IRAs, HSAs do not require you to take minimum distributions at age 70.5.
- If you die and your spouse is your designated beneficiary, your HSA can be transferred to your spouse without taxes due. It will be treated as your spouse's HSA after your death. If your HSA assets transfer to a beneficiary other than a spouse, the beneficiary must report those HSA assets received in his or her gross income the year in which you die. If no beneficiary is available, HSA assets transfer to your estate and the value is included on your final income tax return.

Tax consequences can vary, based on your individual situation. It's a good idea to consult with a tax advisor regarding HSA contributions and distributions.

## Tax savings increase over time

When you take advantage of the tax benefits of an HSA, your savings will add up over time.

## 20 years of tax savings

Annual HSA contributions	\$3,000
Annual expenses from HSA	\$500
Federal tax bracket	28%
State tax	0%
Investment earnings	5.5%
Number of years to project	20



*\*This illustrates a net contribution of \$2,500 per year. Over 20 years this adds up to \$50,000.*

\*Bank of America does not act as your tax or legal advisor with respect to your HSA.

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