

**YOUR
HEALTH SAVINGS
ACCOUNT
(HSA)**

First Effective: January 1, 2008

Revised: May 20, 2010

How is this insurance different?

The district has implemented a High Deductible Health Plan (HDHP) effective January 1, 2008. There are no co-pays for anything, there is only a deductible. All items are billed to the employee for the actual cost of the service (less any UHC negotiated discount).

What is our deductible?

The deductible is \$2,000 single and \$4,000 family. Once you meet your deductible, there will not be any further expenses as long as you stay within the UHC network. The deductible includes prescriptions.

What items apply to my deductible?

- All medical expenses, with the exception of wellness care (e.g. annual physicals, mammograms, immunizations, etc. – be sure your physician codes it as a wellness visit) which is paid 100% by UHC.
- Prescriptions

What is a health savings account?

A Health Savings Account (HSA) is a special account owned by an individual used to pay for current and future medical expenses. There are certain advantages to putting money into these accounts, including favorable tax treatment. HSAs are used in conjunction with a “High Deductible Health Plan” (HDHP).

The individual decides:

- Whether he or she should contribute
- How much to use for medical expenses
- Which medical expenses to pay from the account
- Whether to pay for medical expenses from the account or save the account for future use
- What type of investments to grow the account

Who is Eligible for an HSA?

Any Xenia Community Schools’ employee who is:

- Enrolled in Xenia’s Health Insurance Plan
- Not covered by any other first-dollar medical insurance (e.g. on your spouse’s insurance, etc.) All such insurance must be dropped prior to enrollment.
- Not enrolled in Medicare on January 1 or at any time during the calendar year
- Does not have access to a flexible spending account after enrollment (if your spouse has an FSA and it is spent by enrollment, you “do not have access”).
- Not claimed as a dependent on someone else’s tax return

What if I am not Eligible for an HSA?

If you are not eligible and you elect single or family coverage, the negotiated agreements (XEA and XESP) provide that you will be reimbursed for eligible health care expenses up to \$1,600 single or \$3,200 family. Such amount shall be reimbursed to the employee by the board four (4) weeks after the submission of an explanation of benefits (EOB) from United Health Care.

Currently the only valid reasons for not being eligible are that you are enrolled in Tri-Care, Medicare, Medicaid or you are claimed as a dependent on someone else's tax return.

What is the District contributing to my HSA?

The District is, in most instances, contributing eighty percent (80%) of the deductible or \$1,600 single and \$3,200 family the first week of January in each year of the contract. This means that you may have an additional out of pocket expense of \$400 single or \$800 family until you meet the deductible.

Can I contribute additional amounts to my HSA?

Yes, you can contribute additional amounts to your HSA during the open enrollment period each November (see attached form). For **2009** the limits are \$5,950 family and \$3,000 single which means after the board's contribution, you may put an additional \$2,750 for family or an additional \$1,400 for single. An additional \$1,000 is permitted in **2009** if you turn 55 at any time during the calendar year. For **2010** the limits are \$6,150 family and \$3,050 single, which means after the board's contribution, you may put an additional \$2,950 for family or an additional \$1,450 for single. An additional \$1,000 is permitted in **2010** if you turn 55 at any time during the calendar year.

If you chose not to contribute through payroll deduction, you can put funds into your HSA after tax, and claim it for a tax savings on your income tax return.

What if I turn 65 during the calendar year and enroll in Medicare?

You are only entitled to contribute to your HSA for the months before your turn age 65 and are not enrolled in Medicare. If you chose not enroll in Medicare, this does not apply to you. (Example – Employee turns age 65 in July. The employee may only contribute 6/12th of the maximum HSA contribution.)

For those that turn 65 during the year and enroll in Medicare, the bargaining units have agreed that we treat you as if you are on Medicare for the entire year and you will be set up to be reimbursed for medical expenses.

What if my spouse is on Medicare?

You may still carry family coverage and receive the district's contribution to your HSA in the amount of \$3,200.

What is an eligible expenditure from my HSA?

To avoid tax consequences you may only spend your HSA on qualified medical expenses. These are known as tax free distributions.

What is a Qualified Medical Expense?

Qualified medical expenses are those expenses that would generally qualify for the medical and dental expense deduction. These are explained in IRS Publication 502, Medical and Dental Expenses. Examples include amounts paid for doctors' fees, prescription and non-prescription medicines (over the counter), necessary hospital services not paid for by insurance and vision services. Qualified medical expenses are those incurred by the following persons:

1. Yourself and your spouse
2. All dependents you claim on your tax return
3. Any person you could have claimed as a dependent on your return *except* that:
 - a. The person filed a joint return
 - b. The person has a gross income of \$3,300 or more, or
 - c. You, or your spouse if filing jointly, could be claimed as a dependent on someone else's return.

Special rules for insurance premiums - Generally, you cannot treat insurance premiums as qualified medical expenses for HSAs. You can, however, treat premiums for long-term care coverage, health care coverage while you receive unemployment benefits, or health care continuation coverage (COBRA) as qualified medical expense for HSAs. If you are age 65 or older, you can treat Medicare insurance premiums (other than premiums for Medicare supplemental policies such as Medigap) as qualified medical expense for HSAs.

What if I use the HSA for something other than a qualified medical expense?

You must pay tax on the distribution plus pay an additional 10% penalty.

How do I pay for my medical expenses?

Prescriptions are paid for at time of receipt. Medical expenses are paid for once you receive an Explanation of Benefits (EOB) from UHC (see attached) and a bill from your provider. You wait for the EOB so that UHC can apply their negotiated discount to the service.

If you choose to use your HSA, there are a number of ways to pay for these expenses from your Key Bank HSA:

1. debit card
2. cash (received out of a Key Bank ATM)
3. online bill pay
4. check (there is a \$1.00 per check charge that will be charged to your HSA)

5. write a check out of your personal account and then reimburse yourself with cash

There is no time limit on when the distribution must occur.

You may only pay for medical expenses from the HSA which are incurred after January 1, 2008 or the date of employment, whichever is later.

Recordkeeping

Should the HSA account holder keep receipts? YES! You may need to prove to the IRS that distributions from the HSA were for qualified medical expenses.

Records must be kept sufficient to prove that:

- the expenses were incurred,
- they were not paid for or reimbursed by another source or taken as an itemized deduction

Reporting Distributions on Your Tax Return

You must file Form 8889 (see attached example) with your Form 1040 if you (or your spouse, if married filing a joint return) had any activity in your HSA during the year. If you use a distribution from your HSA for qualified medical expenses, you do not pay tax on the distribution but you have to report the distribution on Form 8889. You must file the form even if the only activity is the contribution from the district. The trustee/custodian (Key Bank) will report any distribution to you and the IRS on Form 1099-SA.

Balances in an HSA

An HSA is generally exempt from tax. You are permitted to take a distribution from your HSA at any time; however, only those amounts used exclusively to pay for qualified medical expenses are tax free even after retirement. Amounts that remain at the end of the year are generally carried over to the next year. Earnings on amounts in an HSA are not included in your income while held in the HSA.

- All amounts in the HSA are fully vested
- Unspent balances in accounts remain in the account until spent
- Encourages account holders to spend their funds more wisely on medical care
- Encourages account holders to shop around for the best value for their health care dollars

What happens to my HSA once I reach age 65?

You may continue to pay for qualified medical expenses out of your HSA after you reach age 65 with no tax consequences. If you wish to take a distribution from your HSA for anything other than qualified medical expenses, it is included in your income. The 10% penalty no longer applies.

What if I leave the district prior to December 31, change from family to single or reduce my hours?

If you retire, resign or are terminated you are only eligible to receive a pro rata share of the district's contribution for that calendar year. If you know that you will be leaving the district prior to December 31, you should notify the treasurer's office prior to November 30th of the preceding year so that only the pro rata share is deposited in your account (e.g. retire July 1, notify treasurer by November 30 of the prior year). **If the district's full amount has been deposited into your account, you must reimburse the district that pro rata share.** You may NOT, however, remove those funds from the HSA without paying taxes and the 10% penalty on those funds. Changing from family to single coverage will also result in a reimbursement to the district as well as reduced hours.

Death of HSA Holder

You should choose a beneficiary when you set up your HSA. What happens to the HSA when you die depends on whom you designate as the beneficiary.

- Spouse is designated – If your spouse is the designated beneficiary of your HSA, it will be treated as your spouses HSA after your death.
- Spouse is not designated – If your spouse is not the designated beneficiary:
 - The account stops being an HSA, and
 - The fair market value of the HSA becomes taxable to the beneficiary in the year in which you die.
 - as qualified medical expense for HSA
 - If your estate is the beneficiary, the value is included on your final income tax return

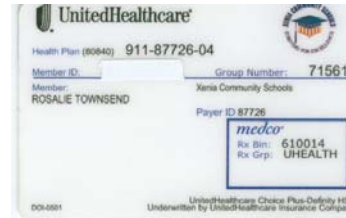
Dept. of Treasury Assistance

Web site – www.treas.gov (Click on Health Savings Accounts) – contains

- All Treasury guidance
- Frequently asked questions
- IRS forms and publications
- HSA statute
- Example of tax savings from HSA contributions
- Links to other useful sites

What card do I use for what?

Use your United Health Care card whenever you go to the doctor, urgent care, hospital or to pick up a prescription. This is your health insurance card and you use it just like you did in the past for any of the above items. The difference is that you no longer have any co-pays, you have a deductible (\$2,000 single/\$4,000 family) which you must meet before the health insurance pays any of your claims. The exception to that is if you receive preventive care services such as an annual physical, blood work along with a physical, and routine immunizations – those are paid by the insurance company at 100%.



You use your United Health Care Vision card to go to a preferred provider to receive \$5.00 vision exams.

To review your benefits, claims, amount of deductible met and to find providers, register at: <https://www.myuhc.com> or <https://www.myuhcvision.com> for your vision providers.



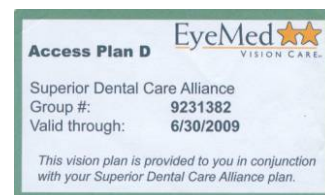
Use your HSA Key Bank debit card to pay for prescriptions at the time you receive them – the negotiated UHC discount is already applied at the time of service.

You can use your debit card to pay your doctor/urgent care/hospital bill but only after you have received an Explanation of Benefits (EOB) from UHC. Please review your EOB to see what you actually owe your provider so that you take advantage of UHC's negotiated provider discount. Once you receive the EOB and your provider bill, you can use your debit card to pay the bill, or go online at www.key.com and use their online billpay. You will need to register using your debit card number, social security number, and debit card pin number.



Use your Superior Dental Card any time that you go to the dentist. Make sure that you go to a preferred provider which can be located at: www.superiordental.com/findDentist.htm If you do not go to a preferred provider you will NOT have any coverage. There are 88 providers in Greene county alone.

Your EyeMed Vision Care card is best used when buying glasses at an EyeMed provider which can be located at: <https://eyemedvisioncare.com/memweb/ProviderLocator>



The benefits that you have with this program are as follows, however, you may be able to get better discounts by watching your Sunday adds:

Complete Pair Glasses Purchase:

* The following Frame, Lenses, and Lens Options discounts and fees apply only if a complete pair is purchased in same transaction

* Items purchased separately will be discounted 20% off of the retail price

Standard Plastic Lenses

Single Vision	\$50
Bifocal	\$70
Trifocal	\$105

Frames

Any frame available at provider location	35% off retail price
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Lens Options

UV Coating	\$15
Tint (Solid and Gradient)	\$15
Standard Scratch-Resistance	\$15
Standard Polycarbonate	\$40
Standard Anti-Reflective Coating	\$45
Standard Progressive (add-on to bifocal)	\$65
Add-Ons and Services	20% off retail price

Contact Lenses (discount applies to materials only)

Conventional	15% off retail price
Disposable	0% off retail price

Laser Vision Correction

LASIK or PRK**	15% off retail price or 5% off promotional price
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**Health Savings Account
Payroll Contributions
(pre-tax)**

Open enrollment (required for each calendar year) for payroll contributions to your Health Savings Account is during the month of November. In almost all instances, the board will be contributing \$1,600 single and \$3,200 family (exceptions are based on XEA and XESP negotiated agreements - certificated part-time teachers and partial calendar year exceptions) to your HSA. The deductible for calendar year 2010 is \$2,000 single and \$4,000 family.

IRS limits for calendar year 2010 are \$3,050 single and \$6,150 family. Based on these limits, you may be able to contribute an additional \$1,450 single and \$2,950 family to your Health Savings account. If you are turning age 55 at any time during 2010, you are entitled to add an additional \$1,000 above those limits.

I wish to have an additional \$_____ per pay x #_____ of pays (1 to 26) for a total of \$_____ contributed in calendar year 2010 to my HSA starting with the first pay in January.

- My Key Bank HSA #_____ (**only required for new enrollments**).

Signature

Date

Printed Name & Building

Soc. Sec. #

Must be returned to the Treasurer's office not later than December 1.

UNITEDHEALTHCARE INSURANCE COMPANY
OLDSMAR SERVICE CENTER
PO BOX 30555
SALT LAKE CITY, UT 84130-0555
PHONE: 1-866-314-0335
Visit www.myuhc.com for self-service



Explanation of Benefits

THIS IS NOT A BILL

MELISSA KRAEMER
4484 STONEGATE DRIVE APT G
BEAVERCREEK, OH 45430

Date: 04/23/09
Subscriber Name: MELISSA KRAEMER
Patient Name: MELISSA KRAEMER
Member ID: 925862247-00
Group Name: XENIA COMMUNITY SCHOOLS
Group #: 0715614
Claim Number: 0215812347601

Physician/ Provider	Total Provider Charges	Medical Plan Paid	Participating Provider Discount	Other Insurance Paid	Paid By Consumer Account	Amount You Owe
I SARMINA	\$362.84	\$0.00	\$210.90	\$0.00	\$0.00	\$151.94

Family Limits	Annual Limit	Year To Date	Remaining
In Net Deductible Med/Rx Combined	4,000.00	2,300.83	1,699.17
In Net Out Of Pkt Med/Rx Combined	4,000.00	2,300.83	1,699.17
Out Of Network Deductible	4,000.00	2,300.83	1,699.17
Out Of Network Out Of Pocket	8,000.00	0.00	8,000.00

Services Details

Patient: MELISSA KRAEMER Claim Number: 0215812347601 Service Date: 04/15/09 - 04/15/09

Service Description/ Remark Code**	Amount Billed	Discount Amount	Not Covered	Amount Approved	Deductible Amount	Co-Pay Amount	% Plan Pays	Health Plan Pays
SURGERY UG	340.84	192.44	0.00	148.40	148.40	0.00	100%	0.00
LABORATORY SERVICES UG	22.00	18.46	0.00	3.54	3.54	0.00	100%	0.00
TOTALS	362.84	210.90	0.00	151.94	151.94	0.00		0.00

Your Balance 151.94

Amount You Owe 151.94

AMOUNT YOU OWE!!

**** Remark Code Descriptions**

UG WE HAVE APPLIED THIS PHYSICIAN'S OR HEALTH CARE PROFESSIONAL'S DISCOUNTED RATE TOWARDS YOUR DEDUCTIBLE. YOU HAVE NOT YET EXCEEDED YOUR DEDUCTIBLE AMOUNT; THEREFORE NO BENEFITS ARE PAYABLE.

MEDICAL CLAIMS ONLY

A review of this benefit determination may be requested by submitting your appeal to us in writing at the following address: UnitedHealthcare Appeals, P.O. Box 30573, Salt Lake City, UT 84130-0573. The request for your review must be made within 180 days from the date you receive this statement. If you request a review of your claim denial, we will complete our review not later than 30 days after we receive your request for review.

You may have the right to file a civil action under ERISA if all required reviews of your claim have been completed.

Take advantage of UHC's
online resources

At almost anytime day or night, you can review claims, check eligibility, locate a network physician, request an ID card, refill prescriptions if eligible, and more! For immediate, secure self-service visit www.myuhc.com

Myuhc Registration

You can register and begin using myuhc in the same session. Navigate to www.myuhc.com to register. The information required for registration is on your insurance ID card (first name, last name, member ID, group number and date of birth).

Maintaining the privacy and security of individuals' personal information is very important to us at UnitedHealthcare. To protect your privacy, we implemented strict confidentiality practices. These practices include the ability to use a unique individual identifier. You may see the unique individual identifier on UnitedHealthcare correspondence, including medical ID cards (if applicable), letters, explanation of benefits (EOBs), and provider remittance advices (PRAs). If you have any questions about the unique individual identifier or its use, please contact your customer care professional at the number shown at the top of this Statement.

Form **8889**

Health Savings Accounts (HSAs)

OMB No. 1545-0074

2009

Department of the Treasury
Internal Revenue Service

▶ **Attach to Form 1040 or Form 1040NR.**

▶ **See separate instructions.**

Attachment
Sequence No. **53**

Name(s) shown on Form 1040 or Form 1040NR

Social security number of HSA beneficiary. If both spouses have HSAs, see page 3 of the instructions ▶

Before you begin: Complete Form 8853, Archer MSAs and Long-Term Care Insurance Contracts, if required.

Part I HSA Contributions and Deduction. See page 3 of the instructions before completing this part. If you are filing jointly and both you and your spouse each have separate HSAs, complete a separate Part I for each spouse.

1	Check the box to indicate your coverage under a high-deductible health plan (HDHP) during 2009 (see page 4 of the instructions)	<input type="checkbox"/> Self-only	<input type="checkbox"/> Family
2	HSA contributions you made for 2009 (or those made on your behalf), including those made from January 1, 2010, through April 15, 2010, that were for 2009. Do not include employer contributions, contributions through a cafeteria plan, or rollovers (see page 4 of the instructions)	<i>This amount is the amount that you deposited directly to the bank - not payroll deducted</i>	
3	If you were under age 55 at the end of 2009, and on the first day of every month during 2009, you were, or were considered, an eligible individual with the same coverage, enter \$3,000 (\$5,950 for family coverage). All others, see page 4 of the instructions for the amount to enter	3	
4	Enter the amount you and your employer contributed to your Archer MSAs for 2009 from Form 8853, lines 3 and 4. If you or your spouse had family coverage under an HDHP at any time during 2009, also include any amount contributed to your spouse's Archer MSAs	4	
5	Subtract line 4 from line 3. If zero or less, enter -0-	5	
6	Enter the amount from line 5. But if you and your spouse each have separate HSAs and had family coverage under an HDHP at any time during 2009, see the instructions on page 4 for the amount to enter	6	
7	If you were age 55 or older at the end of 2009, married, and you or your spouse had family coverage under an HDHP at any time during 2009, enter your additional contribution amount (see page 5 of the instructions)	7	
8	Add lines 6 and 7	8	
9	Employer contributions made to your HSAs for 2009	9	
10	Qualified HSA funding distributions	10	
11	Add lines 9 and 10	11	
12	Subtract line 11 from line 8. If zero or less, enter -0-	12	
13	HSA deduction. Enter the smaller of line 2 or line 12 here and on Form 1040, line 25, or Form 1040NR, line 25 <i>This is where you are able to claim deposits to you HSA that were not payroll deducted</i>		
Caution: If line 2 is more than line 13, you may have to pay an additional tax (see page 5 of the instructions).			

Part II HSA Distributions. If you are filing jointly and both you and your spouse each have separate HSAs, complete a separate Part II for each spouse.

14a	Total distributions you received in 2009 from all HSAs (see page 6 of the instructions)	14a	
b	Distributions included on line 14a that you rolled over to another HSA. Also include any excess contributions (and the earnings on those excess contributions) included on line 14a that were withdrawn by the due date of your return (see page 6 of the instructions)	14b	
c	Subtract line 14b from line 14a	14c	
15	Unreimbursed qualified medical expenses (see page 6 of the instructions)	15	
16	Taxable HSA distributions. Subtract line 15 from line 14c. If zero or less, enter -0-. Also, include this amount in the total on Form 1040, line 21, or Form 1040NR, line 21. On the dotted line next to line 21, enter "HSA" and the amount	16	
17a	If any of the distributions included on line 16 meet any of the Exceptions to the Additional 10% Tax (see page 6 of the instructions), check here ▶ <input type="checkbox"/>		
b	Additional 10% tax (see page 6 of the instructions). Enter 10% (.10) of the distributions included on line 16 that are subject to the additional 10% tax. Also include this amount in the total on Form 1040, line 60, or Form 1040NR, line 57. On the dotted line next to Form 1040, line 60, or Form 1040NR, line 57, enter "HSA" and the amount	17b	

\$1,600 District
\$1,000 John

Actual Distribution for Qual Med Exp

Part III **Income and Additional Tax for Failure To Maintain HDHP Coverage.** See page 6 of the instructions before completing this part. If you are filing jointly and both you and your spouse each have separate HSAs, complete a separate Part III for each spouse.

18	Qualified HSA distribution	18		
19	Last-month rule	19		
20	Qualified HSA funding distribution	20		
21	Total income. Add lines 18, 19, and 20. Include this amount on Form 1040, line 21, or Form 1040NR, line 21. On the dotted line next to Form 1040, line 21, or Form 1040NR, line 21, enter "HSA" and the amount	21		
22	Additional tax. Multiply line 21 by 10% (.10). Include this amount in the total on Form 1040, line 60, or Form 1040NR, line 57. On the dotted line next to Form 1040, line 60, or Form 1040NR, line 57, enter "HDHP" and the amount	22		



Instructions for Form 8889

Health Savings Accounts (HSAs)

Section references are to the Internal Revenue Code unless otherwise noted.

General Instructions

Purpose of Form

Use Form 8889 to:

- Report health savings account (HSA) contributions (including those made on your behalf and employer contributions),
- Figure your HSA deduction,
- Report distributions from HSAs, and
- Figure amounts you must include in income and additional tax you may owe if you fail to be an eligible individual.

Additional information. See Pub. 969, Health Savings Accounts and Other Tax-Favored Health Plans, for more details on HSAs.

Who Must File

You must file Form 8889 if any of the following applies.

- You (or someone on your behalf, including your employer) made contributions for 2009 to your HSA.
- You received HSA distributions in 2009.
- You must include certain amounts in income because you failed to be an eligible individual during the testing period.
- You acquired an interest in an HSA because of the death of the account beneficiary. See *Death of Account Beneficiary* on page 2.



If you (or your spouse, if filing jointly) received HSA distributions in 2009, you must file Form 8889 with a Form 1040 even if you have no taxable income or any other reason for filing Form 1040.

Definitions

Eligible Individual

To be eligible to have contributions made to your HSA, you must be covered under a high deductible health plan (HDHP) and have no other health coverage except permitted coverage. If you are an eligible individual, anyone

can contribute to your HSA. However, you cannot be enrolled in Medicare or be claimed as a dependent on another person's tax return. You must be, or be considered, an eligible individual on the first day of a month to take an HSA deduction for that month (see *Last-month rule* next).

Last-month rule. If you are an eligible individual on the first day of the last month of your tax year (December 1 for most taxpayers), you are considered to be an eligible individual for the entire year.

Testing period. You must remain an eligible individual during the testing period. The testing period begins with the last month of your tax year and ends on the last day of the 12th month following that month (for example, December 1, 2009 – December 31, 2010). If you fail to remain an eligible individual during this period, other than because of death or becoming disabled, you will have to include in income the total contributions made that would not have been made except for the last-month rule. You include this amount in income in the year in which you fail to be an eligible individual. This amount is also subject to a 10% additional tax. (See *Part III*.)

Account Beneficiary

The account beneficiary is the individual on whose behalf the HSA was established.

HSA

Generally, an HSA is a health savings account set up exclusively for paying the qualified medical expenses of the account beneficiary or the account beneficiary's spouse or dependents.

Distributions From an HSA

Distributions from an HSA used exclusively to pay qualified medical expenses of the account beneficiary, spouse, or dependents are excludable from gross income. (See the line 15 instructions for information on medical expenses of dependents not claimed on your return.) You can receive distributions from an HSA even if you are not currently eligible to have

contributions made to the HSA. However, any part of a distribution not used to pay qualified medical expenses is includible in gross income and is subject to an additional 10% tax unless an exception applies.

Qualified Medical Expenses

Generally, qualified medical expenses for HSA purposes are unreimbursed medical expenses that could otherwise be deducted on Schedule A (Form 1040). See the Instructions for Schedule A and Pub. 502, Medical and Dental Expenses (Including the Health Coverage Tax Credit). However, even though non-prescription medicines (other than insulin) do not qualify for the medical and dental expenses deduction, they do qualify as expenses for HSA purposes. Expenses incurred before you establish your HSA are not qualified medical expenses. If, under the last-month rule, you are considered to be an eligible individual for the entire year for determining the contribution amount, only those expenses incurred after you actually establish your HSA are qualified medical expenses.

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

1. Long-term care (LTC) insurance,
2. Health care continuation coverage (such as coverage under COBRA),
3. Health care coverage while receiving unemployment compensation under federal or state law, or
4. Medicare and other health care coverage if you were 65 or older (other than premiums for a Medicare supplemental policy, such as Medigap).



Coverage under (2) and (3) can be for your spouse or a dependent meeting the requirement. For (4), if you, the account beneficiary, are under age 65, Medicare premiums for your spouse or dependents (who are age 65 or older) generally are not qualified medical expenses.

High Deductible Health Plan

An HDHP is a health plan that meets the following requirements.

	Self-only coverage	Family coverage
Minimum annual deductible	\$1,150	\$2,300
Maximum annual out-of-pocket expenses*	\$5,800	\$11,600

* This limit does not apply to deductibles and expenses for out-of-network services if the plan uses a network of providers. Instead, only deductibles and out-of-pocket expenses (such as copayments and other amounts, but not premiums) for services within the network should be used to figure whether the limit is reached.

An HDHP can provide preventive care and certain other benefits with no deductible or a deductible below the minimum annual deductible. For more details, see Pub. 969. An HDHP does not include a plan if substantially all of the coverage is for accidents, disability, dental care, vision care, or long-term care. An HDHP also cannot be insurance that you are permitted to have in addition to an HDHP. See *Other Health Coverage* next.

Other Health Coverage

If you have an HSA, you (and your spouse, if you have family coverage) generally cannot have any health coverage other than an HDHP. But your spouse can have health coverage other than an HDHP if you are not covered by that plan. If you have a health flexible spending arrangement or health reimbursement arrangement, see Pub. 969.

Exceptions. You can have additional insurance that provides benefits only for:

- Liabilities under workers' compensation laws, tort liabilities, or liabilities arising from the ownership or use of property,
- A specific disease or illness, or
- A fixed amount per day (or other period) of hospitalization.

You can also have coverage (either through insurance or otherwise) for accidents, disability, dental care, vision care, or long-term care.

For information on prescription drug plans, see Pub. 969.

Disabled

An individual generally is considered disabled if he or she is unable to engage in any substantial gainful activity due to a physical or mental impairment which can be expected to result in death or to continue indefinitely.

Death of Account Beneficiary

If the account beneficiary's surviving spouse is the designated beneficiary, the HSA is treated as if the surviving spouse were the account beneficiary. The surviving spouse completes Form 8889 as though the HSA belonged to him or her.

If the designated beneficiary is not the account beneficiary's surviving spouse, or there is no designated beneficiary, the account ceases to be an HSA as of the date of death. The beneficiary completes Form 8889 as follows.

- Enter "Death of HSA account beneficiary" across the top of Form 8889.
- Enter the name(s) shown on your tax return and your SSN in the spaces provided at the top of the form and skip Part I.
- On line 14a, enter the fair market value of the HSA as of the date of death.
- On line 15, for a beneficiary other than the estate, enter qualified medical expenses incurred by the account beneficiary before the date of death that you paid within 1 year after the date of death.
- Complete the rest of Part II.

If the account beneficiary's estate is the beneficiary, the value of the HSA as of the date of death is included on the account beneficiary's final income tax return. Complete Form 8889 as described above, except you should complete Part I, if applicable.

The distribution is not subject to the additional 10% tax. Report any earnings on the account after the date of death as income on your tax return.

Note. If, during the tax year, you are the beneficiary of two or more HSAs or you are a beneficiary of an HSA and you have your own HSA, you must complete a separate Form 8889 for each HSA. Enter "statement" at the top of each Form 8889 and complete the form as instructed. Next, complete a controlling Form 8889, combining the amounts shown on each of the statement Forms 8889. Attach the statements to your tax return after the controlling Form 8889.

Deemed Distributions From HSAs

The following situations result in deemed distributions from your HSA.

- You engaged in any transaction prohibited by section 4975 with respect to any of your HSAs, at any time in 2009. Your account ceases to be an HSA as of January 1, 2009, and you must include the fair market value of all

assets in the account as of January 1, 2009, on line 14a.

- You used any portion of any of your HSAs as security for a loan at any time in 2009. You must include the fair market value of the assets used as security for the loan as income on line 21 of Form 1040 or Form 1040NR.

Any deemed distribution will not be treated as used to pay qualified medical expenses. Generally, these distributions are subject to the additional 10% tax.

Rollovers

A rollover is a tax-free distribution (withdrawal) of assets from one HSA or Archer MSA that is reinvested in another HSA. Generally, you must complete the rollover within 60 days after you received the distribution. You can make only one rollover contribution to an HSA during a 1-year period. See Pub. 590, Individual Retirement Arrangements (IRAs), for more details and additional requirements regarding rollovers.

Note. If you instruct the trustee of your HSA to transfer funds directly to the trustee of another HSA, the transfer is not considered a rollover. There is no limit on the number of these transfers. Do not include the amount transferred in income, deduct it as a contribution, or include it as a distribution on line 14a.

Qualified HSA distribution. This is a distribution from a health flexible spending arrangement (FSA) or health reimbursement arrangement (HRA) that is contributed by your employer directly to your HSA. This is a one-time distribution from any of these arrangements. The distribution is treated as a rollover contribution to the HSA and is subject to the testing period rules shown below. See *Pub. 969* for more information.

Testing period. You must remain an eligible individual during the testing period. The testing period begins with the month in which the qualified HSA distribution is contributed to the HSA and ends on the last day of the 12th month following that month. For example, if the distribution is contributed on June 12, 2009, the testing period ends on June 30, 2010. If you fail to remain an eligible individual during this period, other than because of death or becoming disabled, you will have to include the qualified HSA distribution in income in the year in which you fail to be an eligible individual. This amount is also subject to a 10% additional tax. (See *Part III*.)

Specific Instructions

Name and social security number (SSN). Enter your name(s) as shown on your tax return and the SSN of the HSA beneficiary. If married filing jointly and both you and your spouse have HSAs, complete a separate Form 8889 for each of you.

Part I—HSA Contributions and Deductions

Use Part I to figure:

- Your HSA deduction,
- Any excess contributions you made (or those made on your behalf), and
- Any excess contributions made by an employer (see *Excess Employer Contributions* beginning on page 5).

Figuring Your HSA Deduction

The maximum amount that can be contributed to your HSA depends on the type of HDHP coverage you have. If you have self-only coverage, your maximum contribution is \$3,000. If you have family coverage, your maximum contribution is \$5,950.

Note. If you are age 55 or older at the end of 2009, you can make an additional contribution of \$1,000.

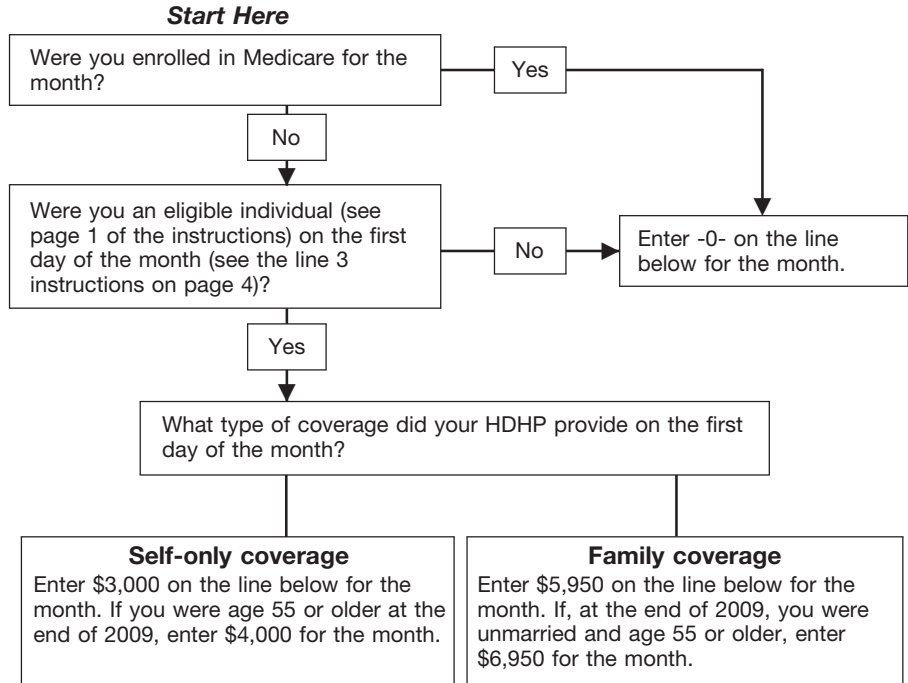
Your maximum contribution is reduced by any employer contributions to your HSA, any contributions made to your Archer MSA, and any qualified HSA funding distributions.

You can make deductible contributions to your HSA even if your employer made contributions. However, if you (or someone on your behalf) made contributions in addition to any employer contributions and qualified HSA funding distributions, you may have to pay an additional tax. See *Excess Contributions You Make* on page 5.

You cannot deduct any contributions for any month in which you were enrolled in Medicare. Also, you cannot deduct contributions if you can be claimed as a dependent on someone else's 2009 tax return.

Line 3 Limitation Chart and Worksheet

Before you begin: See the instructions for line 3 on page 4.
Go through this chart for each month of 2009.
(Keep for your records)



Month in 2009	Amount from chart above
January	_____
February	_____
March	_____
April	_____
May	_____
June	_____
July	_____
August	_____
September	_____
October	_____
November	_____
December	_____
Total for all months	_____
Limitation. Divide the total by 12. Enter here and on line 3.	_____

How To Complete Part I

Complete lines 1 through 13 as instructed on the form. However, if you, and your spouse if filing jointly, are both eligible individuals and either of you have an HDHP with family coverage, you both are treated as having only the family coverage plan. Disregard any plans with self-only coverage.

Complete a separate Form 8889 for each spouse. Combine the amounts on line 13 of both Forms 8889 and enter this amount on Form 1040, line 25; or Form 1040NR, line 25. Be sure to attach both Forms 8889 to your tax return.

Line 1

If you were covered, or considered covered, by a self-only HDHP and a family HDHP at different times during the year, check the box for the plan that was in effect for a longer period. If you were covered by both a self-only HDHP and a family HDHP at the same time, you are treated as having family coverage during that period. If, on the first day of the last month of your tax year, December 1 for most taxpayers, you had family coverage, check the "family" box.

Line 2

Include on line 2 only those amounts you, or others on your behalf, contributed to your HSA. Also, include those contributions made from January 1, 2010, through April 15, 2010, that were for 2009. Do not include employer contributions (see line 9) or amounts rolled over from another HSA or Archer MSA, or a qualified HSA distribution. See *Rollovers* on page 2. Also, do not include any qualified HSA funding distributions (see line 10). Contributions to an employee's account through a cafeteria plan are treated as employer contributions and are not included on line 2.

Line 3

Contributions from your pay are through a cafeteria plan

When figuring the amount to enter on line 3, apply the following rules.

1. Use the family coverage amount if you or your spouse had an HDHP with family coverage. Disregard any plan with self-only coverage.

2. If the last-month rule (see page 1) applies, you are considered an eligible individual for the entire year. You are treated as having the same HDHP coverage for the entire year as you had on the first day of the last month of your tax year.

3. If you were, or were considered, an eligible individual for the entire year and you did not change your type of coverage, enter \$3,000 for a self-only HDHP or \$5,950 for a family HDHP on line 3. (See (6) below.)

4. If you were, or were considered, an eligible individual for the entire year and you changed your type of coverage during the year, enter on line 3 (see (6) below) the greater of:

a. The limitation shown on the last line of the *Line 3 Limitation Chart and Worksheet* on page 3, or

b. The maximum amount that can be contributed based on the type of HDHP coverage you had on the first day of the last month of your tax year.



If you had family coverage on the first day of the last month, you do not need to use the worksheet; enter \$5,950 on line 3.

5. If you were not an eligible individual on the first day of the last month of your tax year, use the *Line 3 Limitation Chart and Worksheet* on page 3 to determine the amount to enter on line 3. (See (6) below.)

6. If, at the end of 2009, you were age 55 or older and unmarried or married with self-only HDHP coverage for the entire year, you can increase the amount determined in (3) or (4) by \$1,000 (the additional contribution amount). For (5), the additional contribution amount is taken into account for each month you are an eligible individual.

Note. If you are married and had family coverage at any time during the year, the additional contribution amount is figured on line 7 and is not included on line 3.

See *Pub. 969* for more information.



If you must complete the line 3 worksheet, and your eligibility and coverage did not change from one month to the next, enter the same number you entered for the previous month.

Line 6

Spouses who have separate HSAs and had family coverage under an HDHP at any time during 2009, use the following rules to figure the amount on line 6.

• 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.

Example. In 2009, you are an eligible individual and have self-only HDHP coverage. In March you marry and as of April 1 you have family HDHP coverage. Neither you nor your spouse qualify for the additional contribution amount. Your spouse has a separate HSA and is an eligible individual from April 1 to December 31, 2009. Because you and your spouse are considered to have family coverage on December 1,

your contribution limit is \$5,950 (the family coverage maximum). You and your spouse can divide this amount in any allocation to which you agree (such as allocating nothing to one spouse).

• If you are not treated as having family coverage for each month, use the following steps to determine the amount to enter on line 6.

Step 1. Refigure the contribution limit that would have been entered on line 5 if you had entered on line 3 the total of the worksheet amounts only for the months you were treated as having family coverage. When refiguring line 5, use the same amount you previously entered on line 4.

Step 2. Divide the refigured contribution limit from *Step 1* equally between you and your spouse, unless you both agree on a different allocation (such as allocating nothing to one spouse).

Step 3. Subtract the part of the contribution limit allocated to your spouse in *Step 2* from the amount determined in *Step 1*.

Step 4. Determine any other contribution limits that apply for the tax year and add that amount to the result in *Step 3*. Enter the total on line 6.

Example. In 2009, you are an eligible individual and have family HDHP coverage. In March you divorce and change your coverage as of April 1 to self-only. Neither you nor your ex-spouse qualify for the additional contribution amount. Your ex-spouse continued to have family HDHP coverage and was an eligible individual for the entire year. The contribution limit for the 3 months you both were considered to have family coverage is \$1,487.50 ($\$5,950 \times 3 \div 12$). You and your ex-spouse decide to divide the family coverage contribution in the following manner: 75% to your ex-spouse and 25% to you. Your contribution limit for 9 months of self-only coverage is \$2,250 ($\$3,000 \times 9 \div 12$). This amount is not divided between you and your spouse.

Because you are covered under a self-only policy on December 1, you will show \$3,000 on line 6 (the greater of either (a) \$2,621.87 (\$1,487.50 family coverage + \$2,250 self-only coverage – \$1,115.63 spousal allocation) or (b) the maximum amount that can be contributed (\$3,000 for self-only coverage)). Your ex-spouse would show \$5,950 on line 6 (the greater of either (a) \$5,578.13 (\$1,487.50 family coverage for the 3 months prior to the divorce + \$4,462.50 family coverage maintained after the divorce – \$371.87 spousal allocation) or (b) the maximum amount that can be contributed (\$5,950 for family coverage)).

Line 7

Additional Contribution Amount

If, at the end of 2009, you were age 55 or older and married, use the Additional Contribution Amount Worksheet on this page if both of the following apply.

1. You or your spouse had family coverage under an HDHP and were, or were considered to be, an eligible individual on the first day of the month.
2. You were not enrolled in Medicare for the month.

Enter the result on line 7.



If items (1) and (2) apply to all months during 2009, enter \$1,000 on line 7.

Additional Contribution Amount Worksheet

1. \$1,000 × number of months eligible _____
2. Divide line 1 by 12. Enter here and on line 7 _____

Example. At the end of 2009, you were age 55 and married. You had family coverage under an HDHP from January 1 through June 30, 2009 (6 months). You were not enrolled in Medicare in 2009. You would enter an additional contribution amount of \$500 on line 7 ($\$1,000 \times 6 \div 12$).

Line 9

Employer Contributions

Employer contributions (including contributions through a cafeteria plan) include any amount an employer contributes to any HSA for you for 2009. These contributions should be shown in box 12 of Form W-2 with code W. If either of the following apply, complete the Employer Contribution Worksheet below.

- Employer contributions for 2008 are included in the amount reported in box 12 of Form W-2 with code W.
- Employer contributions for 2009 are made in 2010.

If your employer made excess contributions, you may have to report the excess as income. See *Excess Employer Contributions* on this page.

Line 10

Enter on line 10 any qualified HSA funding distribution made during the year. This is a distribution from your traditional IRA or Roth IRA to your HSA in a direct trustee-to-trustee transfer. This distribution is not included in your income, is not deductible, and reduces the amount that can be contributed to your HSA. This distribution cannot be made from an ongoing SEP IRA or SIMPLE IRA. For this purpose, a SEP IRA or SIMPLE IRA is ongoing if an employer contribution is made for the plan year ending with or within your tax year in which the distribution would be made.

The maximum amount that can be excluded from income is based on your age at the end of the year and your HDHP coverage (self-only or family) at the time of the distribution. You can make only one qualified HSA funding distribution during your lifetime. However, if you make the distribution during a month when you have self-only HDHP coverage, you can make another qualified HSA funding distribution in a later month in that tax year if you change to family HDHP coverage.

A qualified HSA funding distribution made during your tax year reduces the amount that can be contributed from other sources (including employer contributions) to your HSA. See the discussions under *Line 13* for the treatment of excess contributions.

See *Pub. 969* for more information.

Testing period. You must remain an eligible individual during the testing period. The testing period begins with the month in which the qualified HSA funding distribution is contributed to the HSA and ends on the last day of the 12th month following that month. For example, if the distribution is contributed on June 12, 2009, the testing period ends on June 30, 2010. If you fail to remain an eligible individual during this period, other than because of death or becoming disabled, you will have to include the qualified HSA funding distribution in income in the

year in which you fail to be an eligible individual. This amount is also subject to a 10% additional tax. (See *Part III*.)

Line 13

If you or someone on your behalf (or your employer) contributed more to your HSA than is allowable, you may have to pay an additional tax on the excess contributions. Figure the excess contributions using the instructions below. See Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts, to figure the additional tax.

Excess Contributions You Make

To figure your excess contributions (including those made on your behalf), subtract your deductible contributions (line 13) from your actual contributions (line 2). However, you can withdraw some or all of your excess contributions for 2009 and they will be treated as if they had not been contributed if:

- You make the withdrawal by the due date, including extensions, of your 2009 tax return (but see the *Note* under *Excess Employer Contributions* below),
- You do not claim a deduction for the amount of the withdrawn contributions, and
- You also withdraw any income earned on the withdrawn contributions and include the earnings in "Other income" on your tax return for the year you withdraw the contributions and earnings.

Excess Employer Contributions

Excess employer contributions are the excess, if any, of your employer's contributions over your limitation on line 8. If you made a qualified HSA funding distribution (line 10) during the tax year, reduce your limitation (line 8) by that distribution before you determine whether you have excess employer contributions. If the excess was not included in income on Form W-2, you must report it as "Other income" on your tax return. However, you can withdraw some or all of the excess employer contributions for 2009 and they will be treated as if they had not been contributed if:

Employer Contribution Worksheet

Keep for Your Records



1. Enter the employer contributions reported in box 12 of Form W-2, with code W	1. _____
2. Enter employer contributions made in 2009 for tax year 2008	2. _____
3. Subtract line 2 from line 1	3. _____
4. Enter employer contributions made in 2010 for tax year 2009	4. _____
5. Employer contributions for 2009. Add lines 3 and 4. Enter here and on Form 8889, line 9	5. _____

- You make the withdrawal by the due date, including extensions, of your 2009 tax return (but see the *Note* below),
- You do not claim an exclusion from income for the amount of the withdrawn contributions, and
- You also withdraw any income earned on the withdrawn contributions and include the earnings in “Other income” on your tax return for the year you withdraw the contributions and earnings.

Note. If you timely filed your return without withdrawing the excess contributions, you can still make the withdrawal no later than 6 months after the due date of your tax return, excluding extensions. If you do, file an amended return with “Filed pursuant to section 301.9100-2” written at the top. Include an explanation of the withdrawal. Make all necessary changes on the amended return (for example, if you reported the contributions as excess contributions on your original return, include an amended Form 5329 reflecting that the withdrawn contributions are no longer treated as having been contributed).

Deducting an Excess Contribution in a Later Year

You may be able to deduct excess contributions for previous years that are still in your HSA. The excess contributions you can deduct in the current year is the lesser of the following two amounts.

- Your maximum HSA contribution limit for the year minus any amounts contributed to your HSA for the year.
- The total excess contributions in your HSA at the beginning of the year.

Any excess contribution remaining at the end of the tax year is subject to the additional tax. See Form 5329.

Part II—HSA Distributions

Line 14a

Enter the total distributions you received in 2009 from all HSAs. Your total distributions include amounts paid with a debit card that restricts payments to health care and amounts withdrawn by other individuals that you have designated. These amounts should be shown in box 1 of Form 1099-SA.

Line 14b

Include on line 14b any distributions you received in 2009 that qualified as a rollover contribution to another HSA. See *Rollovers* on page 2. Also include any excess contributions (and the earnings on those excess contributions)

included on line 14a that were withdrawn by the due date, including extensions, of your return. See the instructions for line 13 on page 5.

Line 15



Only include on line 15 distributions from your HSA that were used to pay you for qualified medical expenses (see page 1) not reimbursed by insurance or other coverage and that you incurred after the HSA was established. Do not include the distribution of an excess contribution taken out after the due date, including extensions, of your return even if used for qualified medical expenses.

In general, include on line 15 distributions from all HSAs in 2009 that were used for the qualified medical expenses (see page 1) of:

1. Yourself and your spouse.
2. All dependents you claim on your tax return.
3. Any person you could have claimed as a dependent on your return except that:
 - a. The person filed a joint return.
 - b. The person had gross income of \$3,650 or more.
 - c. You, or your spouse if filing jointly, could be claimed as a dependent on someone else’s return.



For this purpose, a child of parents that are divorced, separated, or living apart for the last 6 months of the calendar year is treated as the dependent of both parents whether or not the custodial parent releases the claim to the child’s exemption.



You cannot take a deduction on Schedule A (Form 1040) for any amount you include on line 15.

Lines 17a and 17b

Additional 10% Tax

HSA distributions included in income (line 16) are subject to an additional 10% tax unless one of the following exceptions applies.

Exceptions to the Additional 10% Tax

The additional 10% tax does not apply to distributions made after the account beneficiary—

- Dies,
- Becomes disabled (see page 2), or
- Turns age 65.

If any of the exceptions apply to any of the distributions included on line 16,

check the box on line 17a. Enter on line 17b only 10% (.10) of any amount included on line 16 that does not meet any of the exceptions.

Example 1. You turned age 63 in 2009 and received a distribution from an HSA that is included in income. Do not check the box on line 17a because you (the account beneficiary) did not meet the age exception for the distribution. Enter 10% of the amount from line 16 on line 17b.

Example 2. You turned age 65 in 2009. You received distributions that are included in income both before and after you turned age 65. Check the box on line 17a because the additional 10% tax does not apply to the distributions made after the date you turned age 65. However, the additional 10% tax does apply to the distributions made on or before the date you turned age 65. Enter on line 17b, 10% of the amount of these distributions included in line 16.

Part III—Income and Additional Tax for Failure to Maintain HDHP Coverage

Use Part III to figure any income and additional tax that must be reported on Form 1040 or Form 1040NR for failure to be an eligible individual during the testing period for:

- A qualified HSA distribution (see page 2),
- Last-month rule (see page 1), and
- A qualified HSA funding distribution (see page 5).

See the discussions on the pages indicated to determine the testing period for each of these items. Include the amount in income in the year in which you fail to be an eligible individual.

Line 18

Enter the total of any qualified HSA distribution.

Line 19

You can use the *Line 3 Limitation Chart and Worksheet* in the Instructions for Form 8889 for the year the contribution was made to determine the contribution you could have made if the last-month rule did not apply. Enter on line 19 the excess of the amount contributed over the redetermined amount. Examples of this computation are in Pub. 969.

Line 20

Enter the total of any qualified HSA funding distribution.

Paperwork Reduction Act Notice.

We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act

unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The average time and expenses required to complete and file this form

will vary depending on individual circumstances. For the estimated averages, see the instructions for your income tax return.

If you have suggestions for making this form simpler, we would be happy to hear from you. See the instructions for your income tax return.

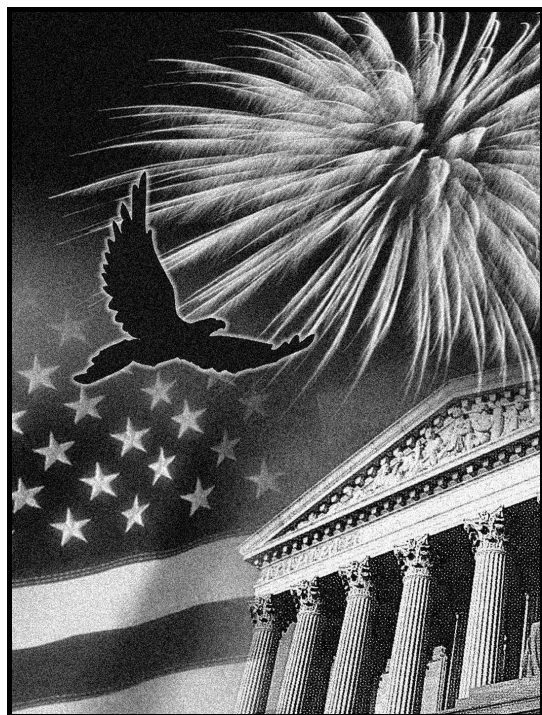


Publication 969

Cat. No. 24216S

Health Savings Accounts and Other Tax-Favored Health Plans

For use in preparing
2009 Returns



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Reminder

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

Introduction

Various programs are designed to give individuals tax advantages to offset health care costs. This publication explains the following programs.

- Health savings accounts (HSAs).
- Medical savings accounts (Archer MSAs and Medicare Advantage MSAs).
- Health flexible spending arrangements (FSAs).
- Health reimbursement arrangements (HRAs).

An HSA may receive contributions from an eligible individual or any other person, including an employer or a family member, on behalf of an eligible individual. Contributions, other than employer contributions, are deductible on the eligible individual's return whether or not the individual itemizes deductions. Employer contributions are not included in income. Distributions from an HSA that are used to pay qualified medical expenses are not taxed.

An Archer MSA may receive contributions from an eligible individual and his or her employer, but not both in the same year. Contributions by the individual are deductible whether or not the individual itemizes deductions. Employer contributions are not included in income. Distributions from an Archer MSA that are used to pay qualified medical expenses are not taxed.

A Medicare Advantage MSA is an Archer MSA designated by Medicare to be used solely to pay the qualified medical expenses of the account holder who is enrolled in Medicare. Contributions can only be made by Medicare. The contributions are not included in your income. Distributions from a Medicare Advantage MSA that are used to pay qualified medical expenses are not taxed.

A health FSA may receive contributions from an eligible individual. Employers may also contribute. Contributions are not includible in income. Reimbursements from an FSA that are used to pay qualified medical expenses are not taxed.

An HRA must receive contributions from the employer only. Employees may not contribute. Contributions are not includible in income. Reimbursements from an HRA that are used to pay qualified medical expenses are not taxed.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

You can write to us at the following address:

Internal Revenue Service
Individual Forms and Publications Branch
SE:W:CAR:MP:T:I
1111 Constitution Ave. NW, IR-6526
Washington, DC 20224

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You can email us at *taxforms@irs.gov. (The asterisk must be included in the address.) Please put "Publications Comment" on the subject line. Although we cannot respond individually to each email, we do appreciate your feedback and will consider your comments as we revise our tax products.

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Internal Revenue Service
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Bloomington, IL 61705-6613

Tax questions. If you have a tax question, check the information available on www.irs.gov or call 1-800-829-1040. We cannot answer tax questions sent to either of the above addresses.

Health Savings Accounts (HSAs)

A health savings account (HSA) is a tax-exempt trust or custodial account that you set up with a qualified HSA trustee to pay or reimburse certain medical expenses you

incur. You must be an eligible individual to qualify for an HSA.

No permission or authorization from the IRS is necessary to establish an HSA. When you set up an HSA, you will need to work with a trustee. A qualified HSA trustee can be a bank, an insurance company, or anyone already approved by the IRS to be a trustee of individual retirement arrangements (IRAs) or Archer MSAs. The HSA can be established through a trustee that is different from your health plan provider.

Your employer may already have some information on HSA trustees in your area.



If you have an Archer MSA, you can generally roll it over into an HSA tax free. See [Rollovers](#), later.

What are the benefits of an HSA? You may enjoy several benefits from having an HSA.

- You can claim a tax deduction for contributions you, or someone other than your employer, make to your HSA even if you do not itemize your deductions on Form 1040.
- Contributions to your HSA made by your employer (including contributions made through a cafeteria plan) may be excluded from your gross income.
- The contributions remain in your account from year to year until you use them.
- The interest or other earnings on the assets in the account are tax free.
- Distributions may be tax free if you pay qualified medical expenses. See [Qualified medical expenses](#), later.
- An HSA is "portable" so it stays with you if you change employers or leave the work force.

Qualifying for an HSA

To be an eligible individual and qualify for an HSA, you must meet the following requirements.

- You must be covered under a high deductible health plan (HDHP), described later, on the first day of the month.
- You have no other health coverage except what is permitted under [Other health coverage](#), later.
- You are not enrolled in Medicare.
- You cannot be claimed as a dependent on someone else's 2009 tax return.



Under the last-month rule, you are considered to be an eligible individual for the entire year if you are an eligible individual on the first day of the last month of your tax year (December 1 for most taxpayers).

If you meet these requirements, you are an eligible individual even if your spouse has non-HDHP family coverage, provided your spouse's coverage does not cover you.



If another taxpayer is entitled to claim an exemption for you, you cannot claim a deduction for an HSA contribution. This is true even if the other person does not actually claim your exemption.



Each spouse who is an eligible individual who wants an HSA must open a separate HSA. You cannot have a joint HSA.

High deductible health plan (HDHP). An HDHP has:

- A higher annual deductible than typical health plans, and
- A maximum limit on the sum of the annual deductible and out-of-pocket medical expenses that you must pay for covered expenses. Out-of-pocket expenses include copayments and other amounts, but do not include premiums.

An HDHP may provide preventive care benefits without a deductible or with a deductible below the minimum annual deductible. Preventive care includes, but is not limited to, the following.

1. Periodic health evaluations, including tests and diagnostic procedures ordered in connection with routine examinations, such as annual physicals.
2. Routine prenatal and well-child care.
3. Child and adult immunizations.
4. Tobacco cessation programs.
5. Obesity weight-loss programs.
6. Screening services. This includes screening services for the following:
 - a. Cancer.
 - b. Heart and vascular diseases.
 - c. Infectious diseases.
 - d. Mental health conditions.
 - e. Substance abuse.
 - f. Metabolic, nutritional, and endocrine conditions.
 - g. Musculoskeletal disorders.
 - h. Obstetric and gynecological conditions.
 - i. Pediatric conditions.
 - j. Vision and hearing disorders.

For more information on screening services, see Notice 2004-23, 2004-15 I.R.B. 725 available at www.irs.gov/irb/2004-15_IRB/ar10.html.

The following table shows the minimum annual deductible and maximum annual deductible and other out-of-pocket expenses for HDHPs for 2009.

	Self-only coverage	Family coverage
Minimum annual deductible	\$1,150	\$2,300
Maximum annual deductible and other out-of-pocket expenses*	\$5,800	\$11,600

* This limit does not apply to deductibles and expenses for out-of-network services if the plan uses a network of providers. Instead, only deductibles and out-of-pocket expenses for services within the network should be used to figure whether the limit applies.



The following table shows the minimum annual deductible and maximum annual deductible and other out-of-pocket expenses for HDHPs for 2010.

	Self-only coverage	Family coverage
Minimum annual deductible	\$1,200	\$2,400
Maximum annual deductible and other out-of-pocket expenses*	\$5,950	\$11,900

* This limit does not apply to deductibles and expenses for out-of-network services if the plan uses a network of providers. Instead, only deductibles and out-of-pocket expenses for services within the network should be used to figure whether the limit applies.

Self-only HDHP coverage is an HDHP covering only an eligible individual. Family HDHP coverage is an HDHP covering an eligible individual and at least one other individual (whether or not that individual is an eligible individual).

Example. An eligible individual and his dependent child are covered under an "employee plus one" HDHP offered by the individual's employer. This is family HDHP coverage.

Family plans that do not meet the high deductible rules. There are some family plans that have deductibles for both the family as a whole and for individual family members. Under these plans, if you meet the individual deductible for one family member, you do not have to meet the higher annual deductible amount for the family. If either the deductible for the family as a whole or the deductible for an individual family member is below the minimum annual deductible for family coverage, the plan does not qualify as an HDHP.

Example. You have family health insurance coverage in 2009. The annual deductible for the family plan is \$3,500. This plan also has an individual deductible of \$1,500 for each family member. The plan does not qualify as an HDHP because the deductible for an individual family member is below the minimum annual deductible (\$2,300) for family coverage.

Other health coverage. You (and your spouse, if you have family coverage) generally cannot have any other health coverage that is not an HDHP. However, you can still be an eligible individual even if your spouse has non-HDHP coverage provided you are not covered by that plan.

You can have additional insurance that provides benefits only for the following items.

- Liabilities incurred under workers' compensation laws, tort liabilities, or liabilities related to ownership or use of property.
- A specific disease or illness.
- A fixed amount per day (or other period) of hospitalization.

You can also have coverage (whether provided through insurance or otherwise) for the following items.

- Accidents.
- Disability.
- Dental care.
- Vision care.
- Long-term care.



Plans in which substantially all of the coverage is through the above listed items are not HDHPs. For example, if your plan provides coverage substantially all of which is for a specific disease or illness, the plan is not an HDHP for purposes of establishing an HSA.

Prescription drug plans. You can have a prescription drug plan, either as part of your HDHP or a separate plan (or rider), and qualify as an eligible individual if the plan does not provide benefits until the minimum annual deductible of the HDHP has been met. If you can receive benefits before that deductible is met, you are not an eligible individual.

Other employee health plans. An employee covered by an HDHP and a health FSA or an HRA that pays or reimburses qualified medical expenses generally cannot make contributions to an HSA. Health FSAs and HRAs are discussed later.

However, an employee can make contributions to an HSA while covered under an HDHP and one or more of the following arrangements.

- Limited-purpose health FSA or HRA. These arrangements can pay or reimburse the items listed earlier under *Other health coverage*, except long-term care. Also, these arrangements can pay or reimburse preventive care expenses because they can be paid without having to satisfy the deductible.
- Suspended HRA. Before the beginning of an HRA coverage period, you can elect to suspend the HRA. The HRA does not pay or reimburse, at any time, the medical expenses incurred during the suspension period except preventive care and items listed under *Other health coverage*. When the suspension period

ends, you are no longer eligible to make contributions to an HSA.

- Post-deductible health FSA or HRA. These arrangements do not pay or reimburse any medical expenses incurred before the minimum annual deductible amount is met. The deductible for these arrangements does not have to be the same as the deductible for the HDHP, but benefits may not be provided before the minimum annual deductible amount is met.
- Retirement HRA. This arrangement pays or reimburses only those medical expenses incurred after retirement. After retirement you are no longer eligible to make contributions to an HSA.

Health FSA – grace period. Coverage during a grace period by a general purpose health FSA is allowed if the balance in the health FSA at the end of its prior year plan is zero, or a qualified HSA distribution (discussed later) of any balance remaining is made to an HSA. See [Flexible Spending Arrangements \(FSAs\)](#), later.

Contributions to an HSA

Any eligible individual can contribute to an HSA. For an employee's HSA, the employee, the employee's 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 make contributions on behalf of an eligible individual.

Contributions to an HSA must be made in cash. Contributions of stock or property are not allowed.

Limit on Contributions

The amount you or any other person can contribute to your HSA depends on the type of HDHP coverage you have, your age, the date you become an eligible individual, and the date you cease to be an eligible individual. For 2009, if you have self-only HDHP coverage, you can contribute up to \$3,000. If you have family HDHP coverage, you can contribute up to \$5,950.



For 2010, if you have self-only HDHP coverage, you can contribute up to \$3,050. If you have family HDHP coverage you can contribute up to \$6,150.

If you were, or were considered (under the last-month rule, discussed later), an eligible individual for the entire year and did not change your type of coverage, you can contribute the full amount based on your type of coverage. However, if you were not an eligible individual for the entire year or changed your coverage during the year, your contribution limit is the greater of:

1. The limitation shown on the last line of the *Line 3 Limitation Chart and Worksheet* in the Instructions for Form 8889, Health Savings Accounts (HSAs), or

2. The maximum annual HSA contribution based on your HDHP coverage (self-only or family) on the first day of the last month of your tax year.



If you had family HDHP coverage on the first day of the last month of your tax year, your contribution limit for 2009 is \$5,950 even if you changed coverage during the year.

Last-month rule. Under the last-month rule, if you are an eligible individual on the first day of the last month of your tax year (December 1 for most taxpayers), you are considered an eligible individual for the entire year. You are treated as having the same HDHP coverage for the entire year as you had on the first day of that last month.

Testing period. If contributions were made to your HSA based on you being an eligible individual for the entire year under the last-month rule, you must remain an eligible individual during the testing period. For the last-month rule, the testing period begins with the last month of your tax year and ends on the last day of the 12th month following that month. For example, December 1, 2009, through December 31, 2010.

If you fail to remain an eligible individual during the testing period, other than because of death or becoming disabled, you will have to include in income the total contributions made to your HSA that would not have been made except for the last-month rule. You include this amount in your income in the year in which you fail to be an eligible individual. This amount is also subject to a 10% additional tax. The income and additional tax are shown on Form 8889, Part III.

Example 1. Chris, age 53, becomes an eligible individual on December 1, 2009. He has family HDHP coverage on that date. Under the last-month rule, he contributes \$5,950 to his HSA.

Chris fails to be an eligible individual in June 2010. Because Chris did not remain an eligible individual during the testing period (December 1, 2009, through December 31, 2010), he must include in his 2010 income the contributions made in 2009 that would not have been made except for the last-month rule. Chris uses the worksheet for line 3 in the Form 8889 instructions to determine this amount.

January	-0-
February	-0-
March	-0-
April	-0-
May	-0-
June	-0-
July	-0-
August	-0-
September	-0-
October	-0-
November	-0-
December	\$5,950.00
Total for all months	\$5,950.00
Limitation. Divide the total by 12	\$495.83

Chris would include \$5,454.17 (\$5,950.00 – \$495.83) in his gross income on his 2010 tax return. Also, a 10% additional tax applies to this amount.

Example 2. Erika, age 39, has self-only HDHP coverage on January 1, 2009. Erika changes to family HDHP coverage on November 1, 2009. Because Erika has family HDHP coverage on December 1, 2009, she contributes \$5,950 for 2009.

Erika fails to be an eligible individual in March 2010. Because she did not remain an eligible individual during the testing period (December 1, 2009, through December 31, 2010), she must include in income the contribution made that would not have been made except for the last-month rule. Erika uses the worksheet for line 3 in the Form 8889 instructions to determine this amount.

January	\$3,000.00
February	\$3,000.00
March	\$3,000.00
April	\$3,000.00
May	\$3,000.00
June	\$3,000.00
July	\$3,000.00
August	\$3,000.00
September	\$3,000.00
October	\$3,000.00
November	\$5,950.00
December	\$5,950.00
Total for all months	\$41,900.00
Limitation. Divide the total by 12	\$3,491.67

Erika would include \$2,458.33 (\$5,950 – \$3,491.67) in her gross income on her 2010 tax return. Also, a 10% additional tax applies to this amount.

Additional contribution. For 2009, if you are an eligible individual who is age 55 or older, your contribution limit is increased by \$1,000. For example, if you have self-only coverage, you can contribute up to \$4,000 (the contribution limit for self-only coverage (\$3,000) plus the additional contribution of \$1,000). However, see [Enrolled in Medicare](#), later.



If you have more than one HSA in 2009, your total contributions to all the HSAs cannot be more than the limits discussed earlier.

Reduction of contribution limit. You must reduce the amount that can be contributed (including any additional contribution) to your HSA by the amount of any contribution made to your Archer MSA (including employer contributions) for the year. A special rule applies to married people, discussed next, if each spouse has family coverage under an HDHP.

Rules for married people. If either spouse has family HDHP coverage, both spouses are treated as having family HDHP coverage. If each spouse has family coverage under a separate plan, the contribution limit for 2009 is \$5,950. You must reduce the limit on contributions, before taking into account any additional contributions, by the

amount contributed to both spouse's Archer MSAs. After that reduction, the contribution limit is split equally between the spouses unless you agree on a different division.



The rules for married people apply only if both spouses are eligible individuals.

If both spouses are 55 or older and not enrolled in Medicare, each spouse's contribution limit is increased by the additional contribution. If both spouses meet the age requirement, the total contributions under family coverage cannot be more than \$7,950. Each spouse must make the additional contribution to his or her own HSA.

Example. For 2009, Mr. Auburn and his wife are both eligible individuals. They each have family coverage under separate HDHPs. Mr. Auburn is 58 years old and Mrs. Auburn is 53. Mr. and Mrs. Auburn can split the family contribution limit (\$5,950) equally or they can agree on a different division. If they split it equally, Mr. Auburn can contribute \$3,975 to an HSA (one-half the maximum contribution for family coverage (\$2,975) + \$1,000 additional contribution) and Mrs. Auburn can contribute \$2,975 to an HSA.

Employer contributions. You must reduce the amount you, or any other person, can contribute to your HSA by the amount of any contributions made by your employer that are excludable from your income. This includes amounts contributed to your account by your employer through a cafeteria plan.

Enrolled in Medicare. Beginning with the first month you are enrolled in Medicare, your contribution limit is zero.

Example. You turned age 65 in July 2009 and enrolled in Medicare. You had an HDHP with self-only coverage and are eligible for an additional contribution of \$1,000. Your contribution limit is \$2,000 ($\$4,000 \times 6 \div 12$).

Qualified HSA funding distribution. A qualified HSA funding distribution may be made from your traditional IRA or ROTH IRA to your HSA. This distribution cannot be made from an ongoing SEP IRA or SIMPLE IRA. For this purpose, a SEP IRA or SIMPLE IRA is ongoing if an employer contribution is made for the plan year ending with or within your tax year in which the distribution would be made.

The maximum qualified HSA funding distribution depends on the HDHP coverage (self-only or family) you have on the first day of the month in which the contribution is made and your age as of the end of the tax year. The distribution must be made directly by the trustee of the IRA to the trustee of the HSA. The distribution is not included in your income, is not deductible, and reduces the amount that can be contributed to your HSA. The qualified HSA funding distribution is shown on Form 8889, Part I, line 10 for the year in which the distribution is made.

You can make only one qualified HSA funding distribution during your lifetime. However, if you make a distribution during a month when you have self-only HDHP coverage, you can make another qualified HSA funding distribution in a later month in that tax year if you change to

family HDHP coverage. The total qualified HSA funding distribution cannot be more than the contribution limit for family HDHP coverage plus any additional contribution to which you are entitled.

Example. In 2009, you are an eligible individual, age 57, with self-only HDHP coverage. You can make a qualified HSA funding distribution of \$4,000 (\$3,000 plus \$1,000 additional contribution).

Funding distribution – testing period. You must remain an eligible individual during the testing period. For a qualified HSA funding distribution, the testing period begins with the month in which the qualified HSA funding distribution is contributed and ends on the last day of the 12th month following that month. For example, if a qualified HSA funding distribution is contributed to your HSA on August 10, 2009, your testing period begins in August 2009, and ends on August 31, 2010.

If you fail to remain an eligible individual during the testing period, other than because of death or becoming disabled, you will have to include in income the qualified HSA funding distribution. You include this amount in income in the year in which you fail to be an eligible individual. This amount is also subject to a 10% additional tax. The income and the additional tax are shown on Form 8889, Part III.

Each qualified HSA funding distribution allowed has its own testing period. For example, you are an eligible individual, age 45, with self-only HDHP coverage. On June 18, 2009, you make a qualified HSA funding distribution of \$3,000. On July 27, 2009, you enroll in family HDHP coverage and on August 17, 2009, you make a qualified HSA funding distribution of \$2,950. Your testing period for the first distribution begins in June 2009 and ends on June 30, 2010. Your testing period for the second distribution begins in August 2009 and ends on August 31, 2010.

The testing period rule that applies under the last-month rule (discussed earlier) does not apply to amounts contributed to an HSA through a qualified HSA funding distribution. If you remain an eligible individual during the entire funding distribution testing period, then no amount of that distribution is included in income and will not be subject to the additional tax for failing to meet the last-month rule testing period.

Rollovers

A rollover contribution is not included in your income, is not deductible, and does not reduce your contribution limit.

Archer MSAs and other HSAs. You can roll over amounts from Archer MSAs and other HSAs into an HSA. You do not have to be an eligible individual to make a rollover contribution from your existing HSA to a new HSA. Rollover contributions do not need to be in cash. Rollovers are not subject to the annual contribution limits.

You must roll over the amount within 60 days after the date of receipt. You can make only one rollover contribution to an HSA during a 1-year period.

Note. If you instruct the trustee of your HSA to transfer funds directly to the trustee of another HSA, the transfer is

not considered a rollover. There is no limit on the number of these transfers. Do not include the amount transferred in income, deduct it as a contribution, or include it as a distribution on Form 8889, line 14a.

Qualified HSA distribution. This is a distribution from a health FSA or an HRA that is transferred to your HSA. To be a qualified HSA distribution certain conditions must be met. See [Qualified HSA distribution](#) under *Flexible Spending Arrangements (FSAs)* and [Health Reimbursement Arrangements \(HRAs\)](#), later.

Testing period. You must remain an eligible individual during the testing period. For a qualified HSA distribution, the testing period begins with the month in which the qualified HSA distribution is contributed and ends on the last day of the 12th month following that month. For example, if a qualified HSA distribution is contributed to your HSA on December 31, 2009, your testing period runs from December 2009, through December 31, 2010.

If you fail to remain an eligible individual during the testing period, other than because of death or becoming disabled, you will have to include in income the qualified HSA distribution. You include this amount in income in the year in which you fail to be an eligible individual. This amount is also subject to a 10% additional tax. The income and the additional tax are shown on Form 8889, Part III.

When To Contribute

You can make contributions to your HSA for 2009 until April 15, 2010. If you fail to be an eligible individual during 2009, you can still make contributions, up until April 15, 2010, for the months you were an eligible individual.

Your employer can make contributions to your HSA between January 1, 2010, and April 15, 2010, that are allocated to 2009. Your employer must notify you and the trustee of your HSA that the contribution is for 2009. The contribution will be reported on your 2010 Form W-2.

Reporting Contributions on Your Return

Contributions made by your employer are not included in your income. Contributions to an employee's account by an employer using the amount of an employee's salary reduction through a cafeteria plan are treated as employer contributions. You can claim contributions you made and contributions made by any other person, other than your employer, on your behalf, as an adjustment to income.

Contributions by a partnership to a bona fide partner's HSA are not contributions by an employer. The contributions are treated as a distribution of money and are not included in the partner's gross income. Contributions by a partnership to a partner's HSA for services rendered are treated as guaranteed payments that are deductible by the partnership and includible in the partner's gross income. In both situations, the partner can deduct the contribution made to the partner's HSA.

Contributions by an S corporation to a 2% shareholder-employee's HSA for services rendered are treated as guaranteed payments and are deductible by the S corporation and includible in the shareholder-employee's

gross income. The shareholder-employee can deduct the contribution made to the shareholder-employee's HSA.

Form 8889. Report all contributions to your HSA on Form 8889 and file it with your Form 1040 or Form 1040NR. You should include all contributions made for 2009, including those made by April 15, 2010, that are designated for 2009. Contributions made by your employer and qualified HSA funding distributions are also shown on the form.

You should receive Form 5498-SA, HSA, Archer MSA, or Medicare Advantage MSA Information, from the trustee showing the amount contributed to your HSA during the year. Your employer's contributions also will be shown in box 12 of Form W-2, Wage and Tax Statement, with code W. Follow the instructions for Form 8889. Report your HSA deduction on Form 1040 or Form 1040NR, line 25.

Excess contributions. You will have excess contributions if the contributions to your HSA for the year are greater than the limits discussed earlier. Excess contributions are not deductible. Excess contributions made by your employer are included in your gross income. If the excess contribution is not included in box 1 of Form W-2, you must report the excess as "Other income" on your tax return.

Generally, you must pay a 6% excise tax on excess contributions. See Form 5329, Additional Taxes on Qualified Plans (including IRAs) and Other Tax-Favored Accounts, to figure the excise tax. The excise tax applies to each tax year the excess contribution remains in the account.

You may withdraw some or all of the excess contributions and not pay the excise tax on the amount withdrawn if you meet the following conditions.

- 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 income" on your tax return for the year you withdraw the contributions and earnings.



If you fail to remain an eligible individual during any of the testing periods, discussed earlier, the amount you have to include in income is not an excess contribution. If you withdraw any of those amounts, the amount is treated the same as any other distribution from an HSA, discussed later.

Deducting an excess contribution in a later year. You may be able to deduct excess contributions for previous years that are still in your HSA. The excess contribution you can deduct for the current year is the lesser of the following two amounts.

- Your maximum HSA contribution limit for the year minus any amounts contributed to your HSA for the year.
- The total excess contributions in your HSA at the beginning of the year.

Amounts contributed for the year include contributions by you, your employer, and any other person. They also include any qualified HSA funding distribution made to your HSA. Any excess contribution remaining at the end of a tax year is subject to the additional tax. See Form 5329.

Distributions From an HSA

You will generally pay medical expenses during the year without being reimbursed by your HDHP until you reach the annual deductible for the plan. When you pay medical expenses during the year that are not reimbursed by your HDHP, you can ask the trustee of your HSA to send you a distribution from your HSA.

You can receive tax-free distributions from your HSA to pay or be reimbursed for qualified medical expenses you incur after you establish the HSA. If you receive distributions for other reasons, the amount you withdraw will be subject to income tax and may be subject to an additional 10% tax. You do not have to make distributions from your HSA each year.



If you are no longer an eligible individual, you can still receive tax-free distributions to pay or reimburse your qualified medical expenses.

Generally, a distribution is money you get from your health savings account. Your total distributions include amounts paid with a debit card that restricts payments to health care and amounts withdrawn from the HSA by other individuals that you have designated. The trustee will report any distribution to you and the IRS on Form 1099-SA, Distributions From an HSA, Archer MSA, or Medicare Advantage MSA.

Qualified medical expenses. Qualified medical expenses are those expenses that would generally qualify for the medical and dental expenses deduction. These are explained in Publication 502, Medical and Dental Expenses. However, even though non-prescription medicines (other than insulin) do not qualify for the medical and dental expenses deduction, they do qualify as expenses for HSA purposes.

For HSA purposes, expenses incurred before you establish your HSA are not qualified medical expenses. State law determines when an HSA is established. An HSA that is funded by amounts rolled over from an Archer MSA or another HSA is established on the date the prior account was established.

If, under the last-month rule, you are considered to be an eligible individual for the entire year for determining the contribution amount, only those expenses incurred after you actually establish your HSA are qualified medical expenses.

Qualified medical expenses are those incurred by the following persons.

1. You and your spouse.
2. All dependents you claim on your tax return.
3. Any person you could have claimed as a dependent on your return except that:
 - a. The person filed a joint return,

- b. The person had gross income of \$3,650 or more, or
- c. You, or your spouse if filing jointly, could be claimed as a dependent on someone else's 2009 return.



For this purpose, a child of parents that are divorced, separated, or living apart for the last 6 months of the calendar year is treated as the dependent of both parents whether or not the custodial parent releases the claim to the child's exemption.



You cannot deduct qualified medical expenses as an itemized deduction on Schedule A (Form 1040) that are equal to the tax-free distribution from your HSA.

Insurance premiums. You cannot treat insurance premiums as qualified medical expenses unless the premiums are for:

1. Long-term care insurance.
2. Health care continuation coverage (such as coverage under COBRA).
3. Health care coverage while receiving unemployment compensation under federal or state law.
4. Medicare and other health care coverage if you were 65 or older (other than premiums for a Medicare supplemental policy, such as Medigap).

The premiums for long-term care insurance (item (1)) that you can treat as qualified medical expenses are subject to limits based on age and are adjusted annually. See *Limit on long-term care premiums you can deduct* in the instructions for Schedule A (Form 1040).

Items (2) and (3) can be for your spouse or a dependent meeting the requirement for that type of coverage. For item (4), if you, the account beneficiary, are not 65 or older, Medicare premiums for coverage of your spouse or a dependent (who is 65 or older) generally are not qualified medical expenses.

Health coverage tax credit. You cannot claim this credit for premiums that you pay with a tax-free distribution from your HSA. See Publication 502 for more information on this credit.

Deemed distributions from HSAs. The following situations result in deemed taxable distributions from your HSA.

- You engaged in any transaction prohibited by section 4975 with respect to any of your HSAs, at any time in 2009. Your account ceases to be an HSA as of January 1, 2009, and you must include the fair market value of all assets in the account as of January 1, 2009, on Form 8889, line 14a.
- You used any portion of any of your HSAs as security for a loan at any time in 2009. You must include the fair market value of the assets used as security for the loan as income on Form 1040 or Form 1040NR, line 21.

Examples of prohibited transactions include the direct or indirect:

- Sale, exchange, or leasing of property between you and the HSA,
- Lending of money between you and the HSA,
- Furnishing goods, services, or facilities between you and the HSA, and
- Transfer to or use by you, or for your benefit, of any assets of the HSA.

Any deemed distribution will not be treated as used to pay qualified medical expenses. These distributions are included in your income and are subject to the additional 10% tax, discussed later.



Recordkeeping. You must keep records sufficient to show that:

- The distributions were exclusively to pay or reimburse qualified medical expenses,
- The qualified medical expenses had not been previously paid or reimbursed from another source, and
- The medical expenses had not been taken as an itemized deduction in any year.

Do not send these records with your tax return. Keep them with your tax records.

Reporting Distributions on Your Return

How you report your distributions depends on whether or not you use the distribution for qualified medical expenses (defined earlier).

- If you use a distribution from your HSA for qualified medical expenses, you do not pay tax on the distribution but you have to report the distribution on Form 8889. However, the distribution of an excess contribution taken out after the due date, including extensions, of your return is subject to tax even if used for qualified medical expenses. Follow the instructions for the form and file it with your Form 1040 or Form 1040NR.
- If you do not use a distribution from your HSA for qualified medical expenses, you must pay tax on the distribution. Report the amount on Form 8889 and file it with your Form 1040 or Form 1040NR. If you have a taxable HSA distribution, include it in the total on Form 1040 or Form 1040NR, line 21, and enter “HSA” and the amount on the dotted line next to line 21. You may have to pay an additional 10% tax on your taxable distribution.



HSA administration and maintenance fees withdrawn by the trustee are not reported as distributions from the HSA.

Additional tax. There is an additional 10% tax on the part of your distributions not used for qualified medical expenses. Figure the tax on Form 8889 and file it with your Form 1040 or Form 1040NR. Report the additional tax on Form 1040, line 60, or Form 1040NR, line 57, and enter “HSA” and the amount on the dotted line next to that line.

Exceptions. There is no additional tax on distributions made after the date you are disabled, reach age 65, or die.

Balance in an HSA

An HSA is generally exempt from tax. You are permitted to take a distribution from your HSA at any time; however, only those amounts used exclusively to pay for qualified medical expenses are tax free. Amounts that remain at the end of the year are generally carried over to the next year (see [Excess contributions](#), earlier). Earnings on amounts in an HSA are not included in your income while held in the HSA.

Death of HSA Holder

You should choose a beneficiary when you set up your HSA. What happens to that HSA when you die depends on whom you designate as the beneficiary.

Spouse is the designated beneficiary. If your spouse is the designated beneficiary of your HSA, it will be treated as your spouse’s HSA after your death.

Spouse is not the designated beneficiary. If your spouse is not the designated beneficiary of your HSA:

- The account stops being an HSA, and
- The fair market value of the HSA becomes taxable to the beneficiary in the year in which you die.

If your estate is the beneficiary, the value is included on your final income tax return.



The amount taxable to a beneficiary other than the estate is reduced by any qualified medical expenses for the decedent that are paid by the beneficiary within 1 year after the date of death.

Filing Form 8889

You must file Form 8889 with your Form 1040 or Form 1040NR if you (or your spouse, if married filing a joint return) had any activity in your HSA during the year. You must file the form even if only your employer or your spouse’s employer made contributions to the HSA.

If, during the tax year, you are the beneficiary of two or more HSAs or you are a beneficiary of an HSA and you have your own HSA, you must complete a separate Form 8889 for each HSA. Enter “statement” at the top of each Form 8889 and complete the form as instructed. Next, complete a controlling Form 8889 combining the amounts shown on each of the statement Forms 8889. Attach the statements to your tax return after the controlling Form 8889.

Employer Participation

This section contains the rules that employers must follow if they decide to make HSAs available to their employees. Unlike the previous discussions, “you” refers to the employer and not to the employee.

Health plan. If you want your employees to be able to have an HSA, they must have an HDHP. You can provide no additional coverage other than those exceptions listed previously under [Other health coverage](#).

Contributions. You can make contributions to your employees’ HSAs. You deduct the contributions on the “Employee benefit programs” line of your business income tax return for the year in which you make the contributions. If the contribution is allocated to the prior year, you still deduct it in the year in which you made the contribution. If you are filing Form 1040, Schedule C, this is Part II, line 14.

For more information on employer contributions, see Notice 2008-59, 2008-29 I.R.B. 123, questions 23 through 27, available at www.irs.gov/irb/2008-29_IRB/ar11.html.

Comparable contributions. If you decide to make contributions, you must make comparable contributions to all comparable participating employees’ HSAs. Your contributions are comparable if they are either:

- The same amount, or
- The same percentage of the annual deductible limit under the HDHP covering the employees.

The comparability rules do not apply to contributions made through a cafeteria plan.

Comparable participating employees. Comparable participating employees:

- Are covered by your HDHP and are eligible to establish an HSA,
- Have the same category of coverage (either self-only or family coverage), and
- Have the same category of employment (part-time, full-time, or former employees).

To meet the comparability requirements for eligible employees who have not established an HSA by December 31 or have not notified you that they have an HSA, you must meet a notice requirement and a contribution requirement.

You will meet the notice requirement if by January 15 of the following calendar year you provide a written notice to all such employees. The notice must state that each eligible employee who, by the last day of February, establishes an HSA and notifies you that they have established an HSA will receive a comparable contribution to the HSA for the prior year. For a sample of the notice, see Regulation 54.498G-4 A-14(c). You will meet the contribution requirement for these employees if by April 15 you contribute comparable amounts plus reasonable interest to the employee’s HSA for the prior year.

Note. For purposes of making contributions to HSAs of non-highly compensated employees, highly compensated

employees shall not be treated as comparable participating employees.

Excise tax. If you made contributions to your employees’ HSAs that were not comparable, you must pay an excise tax of 35% of the amount you contributed.

Employment taxes. Amounts you contribute to your employees’ HSAs are generally not subject to employment taxes. You must report the contributions in box 12 of the Form W-2 you file for each employee. This includes the amounts the employee elected to contribute through a cafeteria plan. Enter code “W” in box 12.

Medical Savings Accounts (MSAs)

Archer MSAs were created to help self-employed individuals and employees of certain small employers meet the medical care costs of the account holder, the account holder’s spouse, or the account holder’s dependent(s).



After December 31, 2007, you cannot be treated as an eligible individual for Archer MSA purposes unless:

1. *You were an active participant for any tax year ending before January 1, 2008, or*
2. *You became an active participant for a tax year ending after December 31, 2007, by reason of coverage under a high deductible health plan (HDHP) of an Archer MSA participating employer.*

A Medicare Advantage MSA is an Archer MSA designated by Medicare to be used solely to pay the qualified medical expenses of the account holder who is eligible for Medicare.

Archer MSAs

An Archer MSA is a tax-exempt trust or custodial account that you set up with a U.S. financial institution (such as a bank or an insurance company) in which you can save money exclusively for future medical expenses.

What are the benefits of an Archer MSA? You may enjoy several benefits from having an Archer MSA.

- You can claim a tax deduction for contributions you make even if you do not itemize your deductions on Form 1040 or Form 1040NR.
- The interest or other earnings on the assets in your Archer MSA are tax free.
- Distributions may be tax free if you pay qualified medical expenses. See [Qualified medical expenses](#), later.
- The contributions remain in your Archer MSA from year to year until you use them.
- An Archer MSA is “portable” so it stays with you if you change employers or leave the work force.

Qualifying for an Archer MSA

To qualify for an Archer MSA, you must be either of the following.

- An employee (or the spouse of an employee) of a small employer (defined later) that maintains a self-only or family HDHP for you (or your spouse).
- A self-employed person (or the spouse of a self-employed person) who maintains a self-only or family HDHP.

You can have no other health or Medicare coverage except what is permitted under [Other health coverage](#), later. You must be an eligible individual on the first day of a given month to get an Archer MSA deduction for that month.



If another taxpayer is entitled to claim an exemption for you, you cannot claim a deduction for an Archer MSA contribution. This is true even if the other person does not actually claim your exemption.

Small employer. A small employer is generally an employer who had an average of 50 or fewer employees during either of the last 2 calendar years. The definition of small employer is modified for new employers and growing employers.

Growing employer. A small employer may begin HDHPs and Archer MSAs for his or her employees and then grow beyond 50 employees. The employer will continue to meet the requirement for small employers if he or she:

- Had 50 or fewer employees when the Archer MSAs began,
- Made a contribution that was excludable or deductible as an Archer MSA for the last year he or she had 50 or fewer employees, and
- Had an average of 200 or fewer employees each year after 1996.

Changing employers. If you change employers, your Archer MSA moves with you. However, you may not make additional contributions unless you are otherwise eligible.

High deductible health plan (HDHP). To be eligible for an Archer MSA, you must be covered under an HDHP. An HDHP has:

- A higher annual deductible than typical health plans, and
- A maximum limit on the annual out-of-pocket medical expenses that you must pay for covered expenses.

Limits. The following table shows the limits for annual deductibles and the maximum out-of-pocket expenses for HDHPs for 2009.

Self-only coverage Family coverage

	Self-only coverage	Family coverage
Minimum annual deductible	\$2,000	\$4,000
Maximum annual deductible	\$3,000	\$6,050
Maximum annual out-of-pocket expenses	\$4,000	\$7,350

Family plans that do not meet the high deductible rules. There are some family plans that have deductibles for both the family as a whole and for individual family members. Under these plans, if you meet the individual deductible for one family member, you do not have to meet the higher annual deductible amount for the family. If either the deductible for the family as a whole or the deductible for an individual family member is below the minimum annual deductible for family coverage, the plan does not qualify as an HDHP.

Example. You have family health insurance coverage in 2009. The annual deductible for the family plan is \$5,500. This plan also has an individual deductible of \$2,000 for each family member. The plan does not qualify as an HDHP because the deductible for an individual family member is below the minimum annual deductible (\$4,000) for family coverage.

Other health coverage. You (and your spouse, if you have family coverage) generally cannot have any other health coverage that is not an HDHP. However, you can still be an eligible individual even if your spouse has non-HDHP coverage provided you are not covered by that plan. However, you can have additional insurance that provides benefits only for the following items.

- Liabilities incurred under workers' compensation laws, torts, or ownership or use of property.
- A specific disease or illness.
- A fixed amount per day (or other period) of hospitalization.

You can also have coverage (whether provided through insurance or otherwise) for the following items.

- Accidents.
- Disability.
- Dental care.
- Vision care.
- Long-term care.

Contributions to an MSA

Contributions to an Archer MSA must be made in cash. You cannot contribute stock or other property to an Archer MSA.

Who can contribute to my Archer MSA? If you are an employee, your employer may make contributions to your

Archer MSA. (You do not pay tax on these contributions.) If your employer does not make contributions to your Archer MSA, or you are self-employed, you can make your own contributions to your Archer MSA. Both you and your employer cannot make contributions to your Archer MSA in the same year. You do not have to make contributions to your Archer MSA every year.



If your spouse is covered by your HDHP and an excludable amount is contributed by your spouse's employer to an Archer MSA belonging to your spouse, you cannot make contributions to your own Archer MSA that year.

Limits

There are two limits on the amount you or your employer can contribute to your Archer MSA:

- The annual deductible limit.
- An income limit.

Annual deductible limit. You (or your employer) can contribute up to 75% of the annual deductible of your HDHP (65% if you have a self-only plan) to your Archer MSA. You must have the HDHP all year to contribute the full amount. If you do not qualify to contribute the full amount for the year, determine your annual deductible limit by using the worksheet for line 5 in the Instructions for Form 8853, Archer MSAs and Long-Term Care Insurance Contracts.

Example 1. You have an HDHP for your family all year in 2009. The annual deductible is \$5,000. You can contribute up to \$3,750 ($\$5,000 \times 75\%$) to your Archer MSA for the year.

Example 2. You have an HDHP for your family for the entire months of July through December 2009 (6 months). The annual deductible is \$5,000. You can contribute up to \$1,875 ($\$5,000 \times 75\% \div 12 \times 6$) to your Archer MSA for the year.



If you and your spouse each have a family plan, you are treated as having family coverage with the lower annual deductible of the two health plans. The contribution limit is split equally between you unless you agree on a different division.

Income limit. You cannot contribute more than you earned for the year from the employer through whom you have your HDHP.

If you are self-employed, you cannot contribute more than your net self-employment income. This is your income from self-employment minus expenses (including the one-half of self-employment tax deduction).

Example 1. Bob Smith earned \$25,000 from ABC Company in 2009. Through ABC, he had an HDHP for his family for the entire year. The annual deductible was \$5,000. He can contribute up to \$3,750 to his Archer MSA ($75\% \times$

\$5,000). He can contribute the full amount because he earned more than \$3,750 at ABC.

Example 2. Joe Craft is self-employed. He had an HDHP for his family for the entire year in 2009. The annual deductible was \$5,000. Based on the annual deductible, the maximum contribution to his Archer MSA would have been \$3,750 ($75\% \times \$5,000$). However, after deducting his business expenses, Joe's net self-employment income is \$2,500 for the year. Therefore, he is limited to a contribution of \$2,500.

Individuals enrolled in Medicare. Beginning with the first month you are enrolled in Medicare, you cannot contribute to an Archer MSA. However, you may be eligible for a Medicare Advantage MSA, discussed later.

When To Contribute

You can make contributions to your Archer MSA for 2009 until April 15, 2010.

Reporting Contributions on Your Return

Report all contributions to your Archer MSA on Form 8853 and file it with your Form 1040 or Form 1040NR. You should include all contributions you, or your employer, made for 2009, including those made by April 15, 2010, that are designated for 2009.

You should receive Form 5498-SA, HSA, Archer MSA, or Medicare Advantage MSA Information, from the trustee showing the amount you (or your employer) contributed during the year. Your employer's contributions should be shown in box 12 of Form W-2, Wage and Tax Statement, with code R. Follow the instructions for Form 8853 and complete the worksheet for line 5. Report your Archer MSA deduction on Form 1040, line 36, or Form 1040NR, line 34.

Excess contributions. You will have excess contributions if the contributions to your Archer MSA for the year are greater than the limits discussed earlier. Excess contributions are not deductible. Excess contributions made by your employer are included in your gross income. If the excess contribution is not included in box 1 of Form W-2, you must report the excess as "Other income" on your tax return.

Generally, you must pay a 6% excise tax on excess contributions. See Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts, to figure the excise tax. The excise tax applies to each tax year the excess contribution remains in the account.

You may withdraw some or all of the excess contributions and not pay the excise tax on the amount withdrawn if you meet the following conditions.

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

Deducting an excess contribution in a later year. You may be able to deduct excess contributions for previous years that are still in your Archer MSA. The excess contribution you can deduct in the current year is the lesser of the following two amounts.

- Your maximum Archer MSA contribution limit for the year minus any amounts contributed to your Archer MSA for the year.
- The total excess contributions in your Archer MSA at the beginning of the year.

Any excess contributions remaining at the end of a tax year are subject to the additional tax. See *Form 5329*.

Distributions From an MSA

You will generally pay medical expenses during the year without being reimbursed by your HDHP until you reach the annual deductible for the plan. When you pay medical expenses during the year that are not reimbursed by your HDHP, you can ask the trustee of your Archer MSA to send you a distribution from your Archer MSA.

You can receive tax-free distributions from your Archer MSA to pay for qualified medical expenses (discussed later). If you receive distributions for other reasons, the amount will be subject to income tax and may be subject to an excise tax as well. You do not have to make withdrawals from your Archer MSA each year.



If you no longer qualify to make contributions, you can still receive tax-free distributions to pay or reimburse your qualified medical expenses.

A distribution is money you get from your Archer MSA. The trustee will report any distribution to you and the IRS on Form 1099-SA, Distributions From an HSA, Archer MSA, or Medicare Advantage MSA.

Qualified medical expenses. Qualified medical expenses are those expenses that would generally qualify for the medical and dental expenses deduction. These are explained in Publication 502, Medical and Dental Expenses. However, even though non-prescription medicines (other than insulin) do not qualify for the medical and dental expenses deduction, they do qualify as expenses for MSA purposes. Qualified medical expenses are those incurred by the following persons.

1. You and your spouse.
2. All dependents you claim on your tax return.
3. Any person you could have claimed as a dependent on your return except that:
 - a. The person filed a joint return,
 - b. The person had gross income of \$3,650 or more, or
 - c. You, or your spouse if filing jointly, could be claimed as a dependent on someone else's 2009 return.



For this purpose, a child of parents that are divorced, separated, or living apart for the last 6 months of the calendar year is treated as the dependent of both parents whether or not the custodial parent releases the claim to the child's exemption.



You cannot deduct qualified medical expenses as an itemized deduction on Schedule A (Form 1040) that are equal to the tax-free distribution from your Archer MSA. This is the amount on line 9 of Form 8853.

Special rules for insurance premiums. Generally, you cannot treat insurance premiums as qualified medical expenses for Archer MSAs. You can, however, treat premiums for long-term care coverage, health care coverage while you receive unemployment benefits, or health care continuation coverage required under any federal law as qualified medical expenses for Archer MSAs.

Health coverage tax credit. You cannot claim this credit for premiums that you pay with a tax-free distribution from your Archer MSA. See Publication 502 for information on this credit.

Deemed distributions from Archer MSAs. The following situations result in deemed taxable distributions from your Archer MSA.

- You engaged in any transaction prohibited by section 4975 with respect to any of your Archer MSAs at any time in 2009. Your account ceases to be an Archer MSA as of January 1, 2009, and you must include the fair market value of all assets in the account as of January 1, 2009, on line 8a of Form 8853.
- You used any portion of any of your Archer MSAs as security for a loan at any time in 2009. You must include the fair market value of the assets used as security for the loan as income on Form 1040 or Form 1040NR, line 21.

Examples of prohibited transactions include the direct or indirect:

- Sale, exchange, or leasing of property between you and the Archer MSA,
- Lending of money between you and the Archer MSA,
- Furnishing goods, services, or facilities between you and the Archer MSA, and
- Transfer to or use by you, or for your benefit, of any assets of the Archer MSA.

Any deemed distribution will not be treated as used to pay qualified medical expenses. These distributions are included in your income and are subject to the additional 15% tax, discussed later.



Recordkeeping. You must keep records sufficient to show that:

- The distributions were exclusively to pay or reimburse qualified medical expenses,
- The qualified medical expenses had not been previously paid or reimbursed from another source, and
- The medical expenses had not been taken as an itemized deduction in any year.

Do not send these records with your tax return. Keep them with your tax records.

Reporting Distributions on Your Return

How you report your distributions depends on whether or not you use the distribution for qualified medical expenses (defined earlier).

- If you use a distribution from your Archer MSA for qualified medical expenses, you do not pay tax on the distribution but you have to report the distribution on Form 8853. Follow the instructions for the form and file it with your Form 1040 or Form 1040NR.
- If you do not use a distribution from your Archer MSA for qualified medical expenses, you must pay tax on the distribution. Report the amount on Form 8853 and file it with your Form 1040 or Form 1040NR. If you have a taxable Archer MSA distribution, include it in the total on Form 1040 or Form 1040NR, line 21, and enter “MSA” and the amount on the dotted line next to line 21. You may have to pay an additional tax on your taxable distribution.



If an amount (other than a rollover) is contributed to your Archer MSA this year (by you or your employer), you also must report and pay tax on a distribution you receive from your Archer MSA this year that is used to pay medical expenses of someone who is not covered by an HDHP, or is also covered by another health plan that is not an HDHP, at the time the expenses are incurred.

Rollovers. Generally, any distribution from an Archer MSA that you roll over into another Archer MSA or an HSA is not taxable if you complete the rollover within 60 days. You can make only one rollover contribution to an Archer MSA during a 1-year period. See the Form 8853 instructions for more information.

Additional tax. There is a 15% additional tax on the part of your distributions not used for qualified medical expenses. Figure the tax on Form 8853 and file it with your Form 1040 or Form 1040NR. Report the additional tax on Form 1040, line 60, or Form 1040NR, line 57, and enter “MSA” and the amount on the dotted line next to that line.

Exceptions. There is no additional tax on distributions made after the date you are disabled, reach age 65, or die.

Balance in an Archer MSA

An Archer MSA is generally exempt from tax. You are permitted to take a distribution from your Archer MSA at any time; however, only those amounts used exclusively to pay for qualified medical expenses are tax free. Amounts that remain at the end of the year are generally carried over to the next year (see [Excess contributions](#), earlier). Earnings on amounts in an Archer MSA are not included in your income while held in the Archer MSA.

Death of the Archer MSA Holder

You should choose a beneficiary when you set up your Archer MSA. What happens to that Archer MSA when you die depends on whom you designate as the beneficiary.

Spouse is the designated beneficiary. If your spouse is the designated beneficiary of your Archer MSA, it will be treated as your spouse’s Archer MSA after your death.

Spouse is not the designated beneficiary. If your spouse is not the designated beneficiary of your Archer MSA:

- The account stops being an Archer MSA, and
- The fair market value of the Archer MSA becomes taxable to the beneficiary in the year in which you die.

If your estate is the beneficiary, the fair market value of the Archer MSA will be included on your final income tax return.



The amount taxable to a beneficiary other than the estate is reduced by any qualified medical expenses for the decedent that are paid by the beneficiary within 1 year after the date of death.

Filing Form 8853

You must file Form 8853 with your Form 1040 or Form 1040NR if you (or your spouse, if married filing a joint return) had any activity in your Archer MSA during the year. You must file the form even if only your employer or your spouse’s employer made contributions to the Archer MSA.

If, during the tax year, you are the beneficiary of two or more Archer MSAs or you are a beneficiary of an Archer MSA and you have your own Archer MSA, you must complete a separate Form 8853 for each MSA. Enter “statement” at the top of each Form 8853 and complete the form as instructed. Next, complete a controlling Form 8853 combining the amounts shown on each of the statement Forms 8853. Attach the statements to your tax return after the controlling Form 8853.

Employer Participation

This section contains the rules that employers must follow if they decide to make Archer MSAs available to their employees. Unlike the previous discussions, “you” refers to the employer and not to the employee.

Health plan. If you want your employees to be able to have an Archer MSA, you must make an HDHP available to them. You can provide no additional coverage other than those exceptions listed previously under [Other health coverage](#).

Contributions. You can make contributions to your employees' Archer MSAs. You deduct the contributions on the "Employee benefit programs" line of your business income tax return for the year in which you make the contributions. If you are filing Form 1040, Schedule C, this is Part II, line 14.

Comparable contributions. If you decide to make contributions, you must make comparable contributions to all comparable participating employees' Archer MSAs. Your contributions are comparable if they are either:

- The same amount, or
- The same percentage of the annual deductible limit under the HDHP covering the employees.

Comparable participating employees. Comparable participating employees:

- Are covered by your HDHP and are eligible to establish an Archer MSA,
- Have the same category of coverage (either self-only or family coverage), and
- Have the same category of employment (either part-time or full-time).

Excise tax. If you made contributions to your employees' Archer MSAs that were not comparable, you must pay an excise tax of 35% of the amount you contributed.

Employment taxes. Amounts you contribute to your employees' Archer MSAs are generally not subject to employment taxes. You must report the contributions in box 12 of the Form W-2 you file for each employee. Enter code "R" in box 12.

Medicare Advantage MSAs

A Medicare Advantage MSA is an Archer MSA designated by Medicare to be used solely to pay the qualified medical expenses of the account holder. To be eligible for a Medicare Advantage MSA, you must be enrolled in Medicare and have a high deductible health plan (HDHP) that meets the Medicare guidelines.

A Medicare Advantage MSA is a tax-exempt trust or custodial savings account that you set up with a financial institution (such as a bank or an insurance company) in which the Medicare program can deposit money for qualified medical expenses. The money in your account is not taxed if it is used for qualified medical expenses, and it may earn interest or dividends.

An HDHP is a special health insurance policy that has a high deductible. You choose the policy you want to use as part of your Medicare Advantage MSA plan. However, the policy must be approved by the Medicare program.

Medicare Advantage MSAs are administered through the federal Medicare program. You can get information by

calling 1-800-Medicare (1-800-633-4227) or through the Internet at www.medicare.gov.

Note. You must file Form 8853, Archer MSAs and Long-Term Care Insurance Contracts, with your tax return if you have a Medicare Advantage MSA.

Flexible Spending Arrangements (FSAs)

A health flexible spending arrangement (FSA) allows employees to be reimbursed for medical expenses. FSAs are usually funded through voluntary salary reduction agreements with your employer. No employment or federal income taxes are deducted from your contribution. The employer may also contribute.

For information on the interaction between a health FSA and an HSA, see [Other employee health plans](#) under [Qualifying for an HSA](#), earlier.

What are the benefits of an FSA? You may enjoy several benefits from having an FSA.

- Contributions made by your employer can be excluded from your gross income.
- No employment or federal income taxes are deducted from the contributions.
- Withdrawals may be tax free if you pay qualified medical expenses. See [Qualified medical expenses](#), later.
- You can withdraw funds from the account to pay qualified medical expenses even if you have not yet placed the funds in the account.

Qualifying for an FSA

Health FSAs are employer-established benefit plans. These may be offered in conjunction with other employer-provided benefits as part of a cafeteria plan. Employers have complete flexibility to offer various combinations of benefits in designing their plan. You do not have to be covered under any other health care plan to participate.

Self-employed persons are not eligible for an FSA.



Certain limitations may apply if you are a highly compensated participant or a key employee.

Contributions to an FSA

You contribute to your FSA by electing an amount to be voluntarily withheld from your pay by your employer. This is sometimes called a salary reduction agreement. The employer may also contribute to your FSA if specified in the plan.

You do not pay federal income tax or employment taxes on the salary you contribute or the amounts your employer contributes to the FSA. However, contributions made by your employer to provide coverage for long-term care insurance must be included in income.

When To Contribute

At the beginning of the plan year, you must designate how much you want to contribute. Then, your employer will deduct amounts periodically (generally, every payday) in accordance with your annual election. You can change or revoke your election only if there is a change in your employment or family status that is specified by the plan.

Amount of Contribution

There is no limit on the amount of money you or your employer can contribute to the accounts; however, the plan must prescribe either a maximum dollar amount or maximum percentage of compensation that can be contributed to your health FSA.

Generally, contributed amounts that are not spent by the end of the plan year are forfeited. See [Balance in an FSA](#), later. For this reason, it is important to base your contribution on an estimate of the qualifying expenses you will have during the year.

Distributions From an FSA

Generally, distributions from a health FSA must be paid only to reimburse you for qualified medical expenses you incurred during the period of coverage. You must be able to receive the maximum amount of reimbursement (the amount you have elected to contribute for the year) at any time during the coverage period, regardless of the amount you have actually contributed. The maximum amount you can receive tax free is the total amount you elected to contribute to the health FSA for the year.

You must provide the health FSA with a written statement from an independent third party stating that the medical expense has been incurred and the amount of the expense. You must also provide a written statement that the expense has not been paid or reimbursed under any other health plan coverage. The FSA cannot make advance reimbursements of future or projected expenses.

Debit cards, credit cards, and stored value cards given to you by your employer can be used to reimburse participants in a health FSA. If the use of these cards meets certain substantiation methods, you may not have to provide additional information to the health FSA. For information on these methods, see Revenue Ruling 2003-43 on page 935 of Internal Revenue Bulletin (IRB) 2003-21 at www.irs.gov/pub/irs-irbs/irb03-21.pdf, Notice 2006-69, 2006-31 I.R.B.107 available at www.irs.gov/irb/2006-31_IRB/ar10.html, and Notice 2007-2, 2007-2 I.R.B. 254 available at www.irs.gov/irb/2007-2_IRB/ar09.html.

The deadline in Notice 2007-2 was extended until June 30, 2009. After that time you may not use FSA debit cards at stores with the Drug Stores and Pharmacies merchant

category codes unless the store meets certain requirements or you provide certain additional information.

Qualified medical expenses. Qualified medical expenses are those specified in the plan that would generally qualify for the medical and dental expenses deduction. These are explained in Publication 502, Medical and Dental Expenses. However, even though non-prescription medicines (other than insulin) do not qualify for the medical and dental expenses deduction, they do qualify as expenses for FSA purposes.

You cannot receive distributions from your FSA for the following expenses.

- Amounts paid for health insurance premiums.
- Amounts paid for long-term care coverage or expenses.
- Amounts that are covered under another health plan.

If you are covered under both a health FSA and an HRA, see Notice 2002-45, Part V, which is on page 93 of IRB 2002-28 at

www.irs.gov/pub/irs-irbs/irb02-28.pdf.



You cannot deduct qualified medical expenses as an itemized deduction on Schedule A (Form 1040) that are equal to the distribution you receive from the FSA.

Qualified HSA distribution. This is a distribution from your health FSA that is transferred to your HSA, discussed earlier. The distribution must not be more than the lesser of the balance in the health FSA on:

- September 21, 2006, or
- The date of the distribution.

If you were not covered by a health FSA on September 21, 2006, you cannot elect to make a qualified HSA distribution from the health FSA. If you were covered by a health FSA with an employer on September 21, 2006, but change employers after that date, you cannot elect to make a qualified HSA distribution from your second employer's health FSA.

The following conditions must be met to make a qualified HSA distribution.

- The plan must have been amended to allow these distributions.
- You must elect to make the rollover.
- The year-end balance in the health FSA must be frozen.
- The funds must be transferred within 2½ months after the end of the health FSA's plan year and result in a zero balance in the health FSA.
- The distribution must be contributed directly to the HSA trustee by the employer.

Only one qualified HSA distribution is allowed for each health FSA.

For more information, see Notice 2007-22, 2007-10 I.R.B. 670 available at www.irs.gov/irb/2007-10_IRB/ar10.html.

If you do not remain an eligible individual for HSA purposes during the testing period, the distribution is included in your income and is subject to a 10% additional tax. See [Qualified HSA distribution](#) under *Health Savings Accounts (HSAs)*, earlier.

Qualified reservist distribution. A special rule allows amounts in a health FSA to be distributed to reservists ordered or called to active duty. This rule applies to distributions made after June 17, 2008, if the plan has been amended to allow these distributions. Your employer must report the distribution as wages on your Form W-2 for the year in which the distribution is made. The distribution is subject to employment taxes and is included in your gross income.

A qualified reservist distribution is allowed if you were (because you were in the reserves) ordered or called to active duty for a period of more than 179 days or for an indefinite period, and the distribution is made during the period beginning on the date of the order or call and ending on the last date that reimbursements could otherwise be made for the plan year that includes the date of the order or call.

Balance in an FSA

Flexible spending accounts are “use-it-or-lose-it” plans. This means that amounts in the account at the end of the plan year cannot be carried over to the next year. However, the plan can provide for a grace period of up to 2½ months after the end of the plan year. If there is a grace period, any qualified medical expenses incurred in that period can be paid from any amounts left in the account at the end of the previous year. Your employer is not permitted to refund any part of the balance to you. See [Qualified HSA distribution](#) and [Qualified reservist distribution](#), earlier.

Employer Participation

For the health FSA to maintain tax-qualified status, employers must comply with certain requirements that apply to cafeteria plans. For example, there are restrictions for plans that cover highly compensated employees and key employees. The plans must also comply with rules applicable to other accident and health plans. Chapters 1 and 2 of Publication 15-B, Employer’s Tax Guide to Fringe Benefits, explain these requirements.

Health Reimbursement Arrangements (HRAs)

A health reimbursement arrangement (HRA) must be funded solely by an employer. The contribution cannot be paid through a voluntary salary reduction agreement on the part of an employee. Employees are reimbursed tax free for qualified medical expenses up to a maximum dollar

amount for a coverage period. An HRA may be offered with other health plans, including FSAs.

For information on the interaction between an HRA and an HSA, see [Other employee health plans](#) under *Qualifying for an HSA*, earlier.

What are the benefits of an HRA? You may enjoy several benefits from having an HRA.

- Contributions made by your employer can be excluded from your gross income.
- Reimbursements may be tax free if you pay qualified medical expenses. See [Qualified medical expenses](#), later.
- Any unused amounts in the HRA can be carried forward for reimbursements in later years.

Qualifying for an HRA

HRAs are employer-established benefit plans. These may be offered in conjunction with other employer-provided health benefits. Employers have complete flexibility to offer various combinations of benefits in designing their plan. You do not have to be covered under any other health care plan to participate.

Self-employed persons are not eligible for an HRA.



Certain limitations may apply if you are a highly compensated participant.

Contributions to an HRA

HRAs are funded solely through employer contributions and may not be funded through employee salary deferrals under a cafeteria plan. These contributions are not included in the employee’s income. You do not pay federal income taxes or employment taxes on amounts your employer contributes to the HRA.

Amount of Contribution

There is no limit on the amount of money your employer can contribute to the accounts. Additionally, the maximum reimbursement amount credited under the HRA in the future may be increased or decreased by amounts not previously used. See [Balance in an HRA](#), later.

Distributions From an HRA

Generally, distributions from an HRA must be paid to reimburse you for qualified medical expenses you have incurred. The expense must have been incurred on or after the date you are enrolled in the HRA.

Debit cards, credit cards, and stored value cards given to you by your employer can be used to reimburse participants in an HRA. If the use of these cards meets certain substantiation methods, you may not have to provide additional information to the HRA. For information on these

methods, see Revenue Ruling 2003-43 on page 935 of Internal Revenue Bulletin (IRB) 2003-21 at www.irs.gov/pub/irs-irbs/irb03-21.pdf, Notice 2006-69, 2006-31 I.R.B. 107 available at www.irs.gov/irb/2006-31_IRB/ar10.html, and Notice 2007-2, 2007-2 I.R.B. 254 available at www.irs.gov/irb/2007-2_IRB/ar09.html.

The deadline in Notice 2007-2 was extended until June 30, 2009. After that time you may not use HRA debit cards at stores with the Drug Stores and Pharmacies merchant category codes unless the store meets certain requirements or you provide certain additional information.

If any distribution is, or can be, made for other than the reimbursement of qualified medical expenses, any distribution (including reimbursement of qualified medical expenses) made in the current tax year is included in gross income. For example, if an unused reimbursement is payable to you in cash at the end of the year, or upon termination of your employment, any distribution from the HRA is included in your income. This also applies if any unused amount upon your death is payable in cash to your beneficiary or estate, or if the HRA provides an option for you to transfer any unused reimbursement at the end of the year to a retirement plan. However, see [Qualified HSA distribution](#), later.

If the plan permits amounts to be paid as medical benefits to a designated beneficiary (other than the employee's spouse or dependents), any distribution from the HRA is included in income.

Reimbursements under an HRA can be made to the following persons.

1. Current and former employees.
2. Spouses and dependents of those employees.
3. Any person you could have claimed as a dependent on your return except that:
 - a. The person filed a joint return,
 - b. The person had gross income of \$3,650 or more, or
 - c. You, or your spouse if filing jointly, could be claimed as a dependent on someone else's 2009 return.
4. Spouses and dependents of deceased employees.

For this purpose, a child of parents that are divorced, separated, or living apart for the last 6 months of the calendar year is treated as the dependent of both parents whether or not the custodial parent releases the claim to the child's exemption.

Qualified medical expenses. Qualified medical expenses are those specified in the plan that would generally qualify for the medical and dental expenses deduction. These are explained in Publication 502, Medical and Dental Expenses. However, even though non-prescription medicines (other than insulin) do not qualify for the medical and dental expenses deduction, they do qualify as expenses for HRA purposes.

Qualified medical expenses from your HRA include the following.

- Amounts paid for health insurance premiums.
- Amounts paid for long-term care coverage.
- Amounts that are not covered under another health plan.

If you are covered under both an HRA and a health FSA, see Notice 2002-45, Part V, which is on page 93 of IRB 2002-28 at

www.irs.gov/pub/irs-irbs/irb02-28.pdf.



You cannot deduct qualified medical expenses as an itemized deduction on Schedule A (Form 1040) that are equal to the distribution from the HRA.

Qualified HSA distribution. This is a distribution from your HRA that is transferred to your HSA, discussed earlier. The distribution must not be more than the lesser of the balance in the HRA on:

- September 21, 2006, or
- The date of the distribution.

If you were not covered by an HRA on September 21, 2006, you cannot elect to make a qualified HSA distribution from the HRA.

The following conditions must be met to make a qualified HSA distribution.

- The plan must have been amended to allow these distributions.
- You must elect to make the rollover.
- The year-end balance in the HRA must be frozen.
- The funds must be transferred within 2½ months after the end of the HRA's plan year and result in a zero balance in the HRA.
- The distribution must be contributed directly to the HSA trustee by the employer.

Only one qualified HSA distribution is allowed for each HRA.

For more information, see Notice 2007-22, 2007-10 I.R.B. 670 available at www.irs.gov/irb/2007-10_IRB/ar10.html.

If you do not remain an eligible individual for HSA purposes during the testing period, the distribution is included in your income and is subject to a 10% additional tax. See [Qualified HSA distribution](#) under *Health Savings Accounts (HSAs)*, earlier.

Balance in an HRA

Amounts that remain at the end of the year can generally be carried over to the next year. Your employer is not permitted to refund any part of the balance to you. These amounts may never be used for anything but reimbursements for qualified medical expenses. See [Qualified HSA distribution](#), earlier.

Employer Participation

For an HRA to maintain tax-qualified status, employers must comply with certain requirements that apply to other accident and health plans. Chapters 1 and 2 of Publication 15-B, Employer's Tax Guide to Fringe Benefits, explain these requirements.

How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Contacting your Taxpayer Advocate. The Taxpayer Advocate Service (TAS) is an independent organization within the IRS whose employees assist taxpayers who are experiencing economic harm, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should. Here are seven things every taxpayer should know about TAS:

- TAS is your voice at the IRS.
- Our service is free, confidential, and tailored to meet your needs.
- You may be eligible for TAS help if you have tried to resolve your tax problem through normal IRS channels and have gotten nowhere, or you believe an IRS procedure just isn't working as it should.
- TAS helps taxpayers whose problems are causing financial difficulty or significant cost, including the cost of professional representation. This includes businesses as well as individuals.
- TAS employees know the IRS and how to navigate it. We will listen to your problem, help you understand what needs to be done to resolve it, and stay with you every step of the way until your problem is resolved.
- TAS has at least one local taxpayer advocate in every state, the District of Columbia, and Puerto Rico. You can call your local advocate, whose number is in your phone book, in Pub. 1546, Taxpayer Advocate Service—Your Voice at the IRS, and on our website at www.irs.gov/advocate. You can also call our toll-free line at 1-877-777-4778 or TTY/TDD 1-800-829-4059.
- You can learn about your rights and responsibilities as a taxpayer by visiting our online tax toolkit at www.taxtoolkit.irs.gov.

Low Income Taxpayer Clinics (LITCs). The Low Income Taxpayer Clinic program serves individuals who have a problem with the IRS and whose income is below a certain level. LITCs are independent from the IRS. Most LITCs can provide representation before the IRS or in court on audits, tax collection disputes, and other issues

for free or a small fee. If an individual's native language is not English, some clinics can provide multilingual information about taxpayer rights and responsibilities. For more information, see Publication 4134, Low Income Taxpayer Clinic List. This publication is available at www.irs.gov, by calling 1-800-TAX-FORM (1-800-829-3676), or at your local IRS office.

Free tax services. To find out what services are available, get Publication 910, IRS Guide to Free Tax Services. It contains lists of free tax information sources, including publications, services, and free tax education and assistance programs. It also has an index of over 100 TeleTax topics (recorded tax information) you can listen to on your telephone.

Accessible versions of IRS published products are available on request in a variety of alternative formats for people with disabilities.

Free help with your return. Free help in preparing your return is available nationwide from IRS-trained volunteers. The Volunteer Income Tax Assistance (VITA) program is designed to help low-income taxpayers and the Tax Counseling for the Elderly (TCE) program is designed to assist taxpayers age 60 and older with their tax returns. Many VITA sites offer free electronic filing and all volunteers will let you know about credits and deductions you may be entitled to claim. To find the nearest VITA or TCE site, call 1-800-829-1040.

As part of the TCE program, AARP offers the Tax-Aide counseling program. To find the nearest AARP Tax-Aide site, call 1-888-227-7669 or visit AARP's website at www.aarp.org/money/taxaide.

For more information on these programs, go to www.irs.gov and enter keyword "VITA" in the upper right-hand corner.



Internet. You can access the IRS website at www.irs.gov 24 hours a day, 7 days a week to:

- *E-file* your return. Find out about commercial tax preparation and *e-file* services available free to eligible taxpayers.
- Check the status of your 2009 refund. Go to www.irs.gov and click on *Where's My Refund*. Wait at least 72 hours after the IRS acknowledges receipt of your e-filed return, or 3 to 4 weeks after mailing a paper return. If you filed Form 8379 with your return, wait 14 weeks (11 weeks if you filed electronically). Have your 2009 tax return available so you can provide your social security number, your filing status, and the exact whole dollar amount of your refund.
- Download forms, instructions, and publications.
- Order IRS products online.
- Research your tax questions online.
- Search publications online by topic or keyword.
- Use the online Internal Revenue Code, Regulations, or other official guidance.

- View Internal Revenue Bulletins (IRBs) published in the last few years.
- Figure your withholding allowances using the withholding calculator online at www.irs.gov/individuals.
- Determine if Form 6251 must be filed by using our Alternative Minimum Tax (AMT) Assistant.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.



Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call 1-800-TAX FORM (1-800-829-3676) to order current-year forms, instructions, and publications, and prior-year forms and instructions. You should receive your order within 10 days.
- *Asking tax questions.* Call the IRS with your tax questions at 1-800-829-1040.
- *Solving problems.* You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call 1-800-829-4059 to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call 1-800-829-4477 to listen to pre-recorded messages covering various tax topics.
- *Refund information.* To check the status of your 2009 refund, call 1-800-829-1954 during business hours or 1-800-829-4477 (automated refund information 24 hours a day, 7 days a week). Wait at least 72 hours after the IRS acknowledges receipt of your e-filed return, or 3 to 4 weeks after mailing a paper return. If you filed Form 8379 with your return, wait 14 weeks (11 weeks if you filed electronically). Have your 2009 tax return available so you can provide your social security number, your filing status, and the exact whole dollar amount of your refund. Refunds are sent out weekly on Fridays. If you check the status of your refund and are not given the date it will be issued, please wait until the next week before checking back.
- *Other refund information.* To check the status of a prior year refund or amended return refund, call 1-800-829-1954.

Evaluating the quality of our telephone services. To ensure IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to listen in on or record random telephone calls. Another is to ask some callers to complete a short survey at the end of the call.



Walk-in. Many products and services are available on a walk-in basis.

- *Products.* You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.
- *Services.* You can walk in to your local Taxpayer Assistance Center every business day for personal, face-to-face tax help. An employee can explain IRS letters, request adjustments to your tax account, or help you set up a payment plan. If you need to resolve a tax problem, have questions about how the tax law applies to your individual tax return, or you are more comfortable talking with someone in person, visit your local Taxpayer Assistance Center where you can spread out your records and talk with an IRS representative face-to-face. No appointment is necessary—just walk in. If you prefer, you can call your local Center and leave a message requesting an appointment to resolve a tax account issue. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. If you have an ongoing, complex tax account problem or a special need, such as a disability, an appointment can be requested. All other issues will be handled without an appointment. To find the number of your local office, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.



Mail. You can send your order for forms, instructions, and publications to the address below. You should receive a response within 10 days after your request is received.

Internal Revenue Service
1201 N. Mitsubishi Motorway
Bloomington, IL 61705-6613



DVD for tax products. You can order Publication 1796, IRS Tax Products DVD, and obtain:

- Current-year forms, instructions, and publications.

- Prior-year forms, instructions, and publications.
 - Tax Map: an electronic research tool and finding aid.
 - Tax law frequently asked questions.
 - Tax Topics from the IRS telephone response system.
 - Internal Revenue Code—Title 26 of the U.S. Code.
 - Fill-in, print, and save features for most tax forms.
 - Internal Revenue Bulletins.
 - Toll-free and email technical support.
- Two releases during the year.
 - The first release will ship the beginning of January 2010.
 - The final release will ship the beginning of March 2010.

Purchase the DVD from National Technical Information Service (NTIS) at www.irs.gov/cdorders for \$30 (no handling fee) or call 1-877-233-6767 toll free to buy the DVD for \$30 (plus a \$6 handling fee).



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