



Clarification of IRS Form 8889 for Health Savings Accounts

It's tax time, which brings about a flurry of last-minute activity for individuals, CPAs, tax attorneys, estate attorneys, financial planners, investment advisors, and retirement specialists. With the addition in 2004 of Health Savings Accounts as a tax-favored option, a new set of tax reporting requirements and forms have arisen.

As the deadline for filing 2005 taxes draws near, we wanted to provide some helpful information concerning one such form, IRS Form 8889 (<http://www.irs.gov/pub/irs-pdf/f8889.pdf>), which some HSA account holders may find confusing. Form 8889 is referenced on Line 28 of Form 1040 and must be filed if the account holder (or their spouse, if filing a joint return) had any activity in their HSA during the year.

Purpose of Form 8889

Form 8889:

- Reports HSA contributions (including those made on your behalf and employer contributions) in order to determine if over-contributions were made to the HSA.
- Calculates HSA deductions
- Reports distributions from HSAs to determine and calculate the taxable amount of any unqualified expenses.

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 2005 to your HSA.
- You received HSA distributions in 2005.
- You acquired an interest in an HSA because of the death of the account beneficiary.

The following are the line items that may be confusing or unclear on Form 8889.

Line 2: It is important to note that this line is for Post-Tax contributions only. Pre-tax contributions through a Cafeteria Plan should be entered on **Line 9**. This is due to the fact that Cafeteria Plan contributions are considered employer contributions even if run through a payroll salary reduction agreement.

Line 3: If you are under age 55 and eligible (<http://www.hsa223.com/eligibility.asp>) for an HSA the entire 12 months of 2005, enter the lesser of either your annual deductible OR \$2,650 for individual and \$5,250 for family coverage. All others will need to complete the worksheet on page 3 of the Instructions for Form 8889 (<http://www.irs.gov/pub/irs-pdf/i8889.pdf>). The worksheet includes “catch-up” contributions for individuals over 55 who are NOT married. Catch-up contributions for married individuals are entered on **Line 7** (see below).

Line 7: This line item for catch-up contributions only applies to the account holder who is over 55 and married with family coverage and/or who was eligible (<http://www.hsa223.com/eligibility.asp>) for an HSA less than 12 months of 2005. See page 4 of the Instructions for Form 8889 (<http://www.irs.gov/pub/irs-pdf/i8889.pdf>) for catch-up contribution amounts.

Line 9: This is where you enter your employer’s contributions to your HSA, including pre-tax contributions made through an employer’s Cafeteria Plan ... even if made through a payroll salary reduction agreement (compare with **Line 2** above).

Line 13: The use of the words “unreimbursed qualified medical expenses” in this line item has caused some confusion. In effect, you should enter the amount of withdrawals from the HSA that were used to pay or reimburse “qualified” medical expenses. Generally, qualified medical expenses are unreimbursed medical expenses that could otherwise be deducted on Schedule A (Form 1040). You cannot take a deduction on Schedule A (Form 1040) for any amount you include on Line 13 of Form 8889.

The complexity of filing HSA information at tax time is just one of the challenges that account holders face when establishing, using, and maintaining an HSA. It is important when setting up an HSA to determine if the HSA provider offers value-added services such as plan eligibility determination, contribution and distribution management, claims certification and storage, investment options, tax help, etc. There is more to an HSA than just a bank account and a checkbook.

One of the unique and defining aspects of HSA*Today*[™] is the role of the Plan Service Provider (PSP) as the account holder’s Personal HSA Assistant. Providing assistance at tax time is just one of the value-added services offered by HSA*Today*[™] PSPs.

Additional Information and Resources

See IRS Publication 969 (<http://www.irs.gov/pub/irs-pdf/p969.pdf>) for more information on preparing tax returns for HSAs and other tax-favored health plans.

IRS Form 8889 (<http://www.irs.gov/pub/irs-pdf/f8889.pdf>)

Instructions for Form 8889 (<http://www.irs.gov/pub/irs-pdf/i8889.pdf>)

Sample Scenarios & Documents (<http://www.hsa223.com/documents/Form8889.asp>)