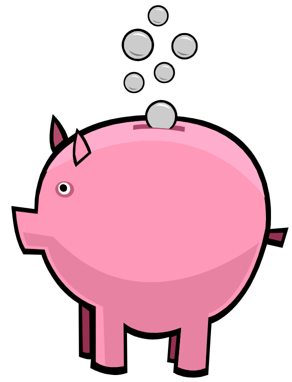
Health Savings Account basics



What:

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

Who qualifies?

To contribute to a HSA, a taxpayer must:

- Be covered by a HSA compatible, high deductible, health plan. ($1,300 - $6,550 self coverage or $2,600 - $13,100 family coverage)
- Not have other health coverage other than disability, dental, vision, or long term care.
- Not be enrolled in Medicare.
- Not be a dependent of another taxpayer.

Contribution limits:

For 2015:

- Contributions are limited to $3,350 for a single policy and $6,650 for a family policy.
- Taxpayers age 55 or over at the end of the year can contribute an extra $1,000.
- The taxpayer's contribution can be made by the taxpayer, an employer, or someone else.

For 2016:

- Contributions are limited to $3,350 for a single policy and $6,750 for a family policy.

Distributions:

- Funds distributed from a HSA to cover qualified deductible medical expenses are not taxed.
- Distributions for reasons other than qualified deductible medical expense are taxed. They are also subject to a 20% penalty if the taxpayer is under 59½.

Advantages:

- Medical expenses on Schedule A are only deductible to the extent they exceed 10% of a taxpayer's income (under age 65) or 7½% (65 or older). A HSA account allows a medical deduction (from dollar one spent) even if the taxpayer does not itemize.
- Contributions remaining in the account at year-end roll over to the next year to be used, not lost like flexible spending arrangements.
- Earnings in the HSA are not taxed.
- Annual contributions in the HSA can be made up to the due date of the tax return (not including extensions).