

Inheriting HSA Beneficiary – Duty to Prepare Form 8889

If the HSA owner's surviving spouse is the designated beneficiary, the surviving spouse becomes the HSA owner. Consequently, he or she completes Form 8889 for transactions occurring after the HSA owner's death.

If the HSA owner has designated a non-spouse beneficiary and dies, the HSA ceases being an HSA.

If the inheriting beneficiary is not the HSA owner's estate, the beneficiary completes Form 8889 as follows.

1. Across the top of the form write, "Death of HSA Owner."
2. At the top the beneficiary will insert his/her name and social security number. Part I (Contributions) is not to be completed. It is to be skipped as no additional HSA contributions may be made by a beneficiary.
3. On line 14a the HSA's fair market value as of the date of death is inserted.

The beneficiary includes this amount in his or her taxable income for the year during the HSA owner died. This is true even if the beneficiary withdraws the funds in a following year. The 20% penalty for non-medical use does not apply. Any earnings realized after the death of the HSA owner are included in the beneficiary's income for the withdrawal year.

The HSA custodian/trustee prepares the Form 1099-SA to report the distribution to the beneficiary for the year during which the withdrawal occurs.

4. The remainder of Part II (Distributions) is to be completed.
5. If the beneficiary pays within one year of the date of death medical expenses incurred by the HSA owner prior to his or her death, then such amount is to be listed on line 15. At times the beneficiary may need to file an amended tax return.

If the inheriting beneficiary is the HSA owner's estate, the final tax return and Form 8889 for the HSA owner as follows.

1. Across the top of the form write, "Death of HSA Owner."

2. Part I is to be completed, if applicable. That is, if the HSA owner made contributions prior to his death, they are reported.

3. On line 14a the HSA's fair market value as of the date of death is inserted.

This amount is included on the deceased HSA owner's final tax return for the year he or she died. This is true even if the personal representative withdraws the funds in a following year.

4. The remainder of Part II (Distributions) is to be completed.
5. If the estate pays within one year of the date of death medical expenses incurred by the HSA owner prior to his or her death, then such amount is to be listed on line 15. At times the final tax return for the deceased HSA owner may need to file an amended tax return.

There are two times when a person is apparently required to file a paper tax return (versus an electronic filing) and file multiple 8889 forms.

The first situation is the person has his or her own personal HSA and then inherits an HSA. The person must prepare a Form 8889 for each HSA and a summary Form 8889. "StatementM is to be written at the top of each of the non-summary 8889 forms. These statements are to be attached to the summary Form 8889. The IRS instructions use the term "controlling 8889", we prefer "summary 8889."