



**HSA**s



**Business &  
Health  
Savings  
Accounts**

*2023 and 2024 Limits*

**Questions & Answers**

## **Purpose**

The purpose of this brochure is to present a business decision-maker with basic information about HSAs so a business can decide what role, if any, it wishes to take with respect to Health Savings Accounts.

An employer can create a good health plan for its employees by offering a high-deductible health plan (HDHP) and also making contributions to the employees' Health Savings Accounts.

## **What is the interrelationship of HSAs and certain HDHPs?**

An employer considers offering health insurance coverage to its employees. The employer may offer standard group health insurance coverage or it may offer a high-deductible health plan (HDHP). In recent years many employers have chosen to offer a HDHP for cost reasons. In addition, many employers choose to make a contribution amount to the HSA accounts of its employees. The combination of these two plans will normally give an employee the assurance that she or he is covered for most medical events.

## **What is a Health Savings Account (HSA)?**

An HSA is a tax-preferred account similar to a 401(k) plan or an IRA. It is a quasi-trust account established on behalf of a specific person. It is an individual account, not a joint account. HSAs have the special feature that funds withdrawn to pay the qualified medical expenses of the HSA account owner, his or her spouse or any dependent will be tax free.

## **What tax and health benefits does an employee receive by having an HSA?**

The funds contributed are either tax-free when contributed by the employer and tax deductible when contributed by the employee. When the employee withdraws funds from their HSA and uses it to pay a qualified medical expense, the distribution is not taxed. So, an HSA is a tax preferred account which an employee uses to accumulate funds to be used to be used for medical reasons and for other reasons. The HSA funds are 100% vested and belong to the individual.

## **Is a business required to contribute to the HSAs of its employees?**

No. A business may choose to contribute to its employees' HSAs, but there is no law requiring a business to make such

contributions. However, many employers do so. Many employers will also add a preventative care provision to the HDHP.

### **Does a business have the right to select one financial institution to serve as the HSA custodian?**

Yes. In order to simplify the administration of HSAs, the IRS and the DOL have said, if certain rules are followed, the employer may choose one financial institution at which all of its employees will be required to establish their HSA. For further information on this subject, a business should refer to Field Assistance Bulletin 2004-1 as issued by the Employee Benefit Security Administration (ESBA) on April 7, 2004.

### **How do employees establish an HSA?**

An employer will wish to ask the financial institution it has chosen to act as the HSA custodian/trustee to furnish it with the necessary forms so that employees may establish the HSAs. A person establishes an HSA in the same way he or she would establish an IRA. After being furnished a copy of an HSA plan agreement by a financial institution, the individual and the financial institution will complete the form and sign the document. A person will be able to designate one or more beneficiaries to receive the HSA funds if he or she should die.

### **Why would an employer want to consider making contributions to the HSAs of its employees?**

(1) To save money; (2) To help employees by contributing to an HSA; (3) To help employees by having a health plan with more preventive-medicine features; and (4) To encourage employees to maintain a more healthy life style.

An employer contribution to an HSA is a new type of employee benefit. An employer will contribute to its employees' HSAs so that funds may be accumulated for health purposes and other saving purposes.

### **How will employees benefit with an HDHP and an HSA?**

Money which otherwise would have been spent on health insurance premiums may be accumulated and owned by the individual within his or her HSA.

## **When can a person establish an HSA and have contributions made to such HSA?**

A person is eligible to have a contribution made to an HSA only if he or she is an “eligible” individual. This is true whether a business makes the contribution, the individual makes a contribution for himself or herself, or the contribution is made by a family member or any other person or entity. A person is only eligible if he or she meets all four of the following requirements: (i) is covered by a high-deductible health plan (HDHP), (ii) is not covered by any plan which is not an HDHP (i.e. a low-deductible plan), (iii) is not enrolled in Medicare and (iv) may not be claimed as a dependent on someone else’s tax return.

Note that there is no requirement for a person to be employed, to have compensation, or to not be covered by a pension plan in order to be eligible to have a contribution made to his or her HSA.

There is also no requirement that an employer sponsor an HDHP. An individual may purchase an HDHP for himself or herself. If the employer sponsors the HDHP, it will want to receive a written statement from its health insurer that its health plan qualifies as an HDHP for HSA purposes.

## **What are the contribution (and deduction) limits for 2023?**

For 2023, there is an annual contribution (and deduction) limit equal to the sum of the monthly limitations that apply for any year during which the account owner is an eligible individual. Determining this limit is the responsibility of the eligible individual and his or her advisors. It is not the responsibility of the custodian or trustee. For calendar year 2023, the maximum monthly contribution for eligible individuals with self-only coverage under an HDHP is 1/12 of the maximum limit of \$3,850. For eligible individuals with family coverage under an HDHP, the maximum monthly contribution is 1/12 of the maximum limit of \$7,750. In addition to the maximum contribution amount, catch-up contributions may be made by or on behalf of eligible individuals who are age 55 or older.

All HSA contributions made by or on behalf of an eligible individual are aggregated for purposes of applying the limit. If an individual has more than one HSA, the aggregate annual contributions to all the HSAs are subject to the limit. The annual limit is decreased by the aggregate contributions to an MSA. The same annual contribution limit applies whether the contributions are made by an employ-

ee, an employer, a self-employed person, a family member, or any other person or entity.

## What are the maximum contribution and deduction limits for 2023 and 2024?

<u>Under Age 55</u>	<u>2023</u>	<u>2024</u>
Single HDHP	\$3,850	\$4,150
Family HDHP	\$7,750	\$8,300
<u>Age 55 &amp; Older</u>	<u>2023</u>	<u>2024</u>
Single HDHP	\$4,850	\$5,150
Family HDHP	\$8,750	\$9,300

## What is a “catch-up” contribution?

It is an additional annual contribution not to exceed \$1,000. If you are an eligible individual who is age 55 or older as of December 31, your contribution limit is increased by \$1,000. This \$1,000 amount is not adjusted by a cost of living factor. If you are married and both of you are age 55 or older, then both of you may make this contribution. You must make the additional contribution to your HSA and your spouse must make his or her additional contribution to his or her HSA.

## In what form must HSA contributions be made?

Annual contributions to an HSA must be made in cash. For example, a contribution may not be made in the form of stock or other property unless it is a rollover or transfer.

## What is the deadline for establishing and/or making an HSA contribution?

The deadline for annual contributions to an HSA is the time prescribed by law for filing individual Federal income tax returns, excluding extensions. Normally this is April 15 of the following year. This deadline may change if there is a natural disaster.

Contributions for the taxable year can be made in one or more payments, at the convenience of the individual or the employer, at any time prior to the time prescribed by law (without extensions) for filing the eligible individual’s federal income tax return for that year, but not before the beginning of that year. For calendar-year taxpayers, the deadline for contributions to an HSA is generally the April 15 following the year for which the contributions are made. Although the annual contribution is determined monthly, the maximum contribution may be made on the first day of the year.

However, after an individual becomes enrolled in Medicare benefits, contributions, including catch-up contributions, cannot be made for that period to an individual's HSA.

## **What health plans qualify as a High-Deductible Health Plans (HDHPs) for HSA purposes?**

A high-deductible health care plan is a health plan that contains certain minimum dollar limitations on the annual deductible, and maximum limitations on the out-of-pocket expenses listed under the plan. A health care plan that provides individual coverage will be considered a high-deductible plan if it has an annual deductible of at least \$1,500 for 2023 and \$1,600 for 2024. A health care plan that provides family coverage will be considered a high-deductible plan if it has an annual deductible of at least \$3,000 for 2023 and \$3,200 for 2024. Out-of-pocket expenses for 2023 may not exceed \$7,500 for individual coverage, and \$15,000 for family coverage. Out-of-pocket expenses for 2024 may not exceed \$8,050 for individual coverage, and \$16,100 for family coverage. Out-of-pocket expenses include deductibles, co-payments and other amounts the participant must pay for covered benefits, but do not include premiums.

## **Do certain nondiscrimination rules apply to HSAs?**

Yes. If an employer makes HSA contributions, the employer must make available comparable contributions on behalf of all "comparable participating employees" (i.e., eligible employees with comparable coverage) during the same period. Contributions are considered comparable if they are either the same amount or same percentage of the deductible under the HDHP.

This subject is generally complex and an employer wishes to discuss with its professional advisors. The IRS may assess a 35% excise tax if the comparability rules are not met.

## **What is the federal tax treatment when a business contributes funds to the HSAs of its employees?**

For federal tax purposes, a business is entitled to treat its HSA contributions as if it had paid the cost of health insurance premiums. The business will be able to deduct its contributions. The business will be able to exclude such contributions from the income of the employees for purposes of Federal income tax withholding, social security taxes and Medicare taxes.

## **What is the federal tax treatment when a business has established a cafeteria plan allowing its employees to defer their wages into their HSA?**

The employees will defer a portion of their wages to purchase the HDHP insurance and/or to make a contribution to an HSA.

For federal tax purposes, these deferred amounts will be excluded from the income of the employees for purposes of Federal income tax withholding, social security taxes and Medicare tax purposes.

## **What is the federal tax treatment when a business establishes an HSA payroll-deduction program?**

An employee may instruct its employer to withhold funds from his or her paycheck and then forward such funds to an HSA custodian/trustee. The employee will claim a tax deduction for his or her HSA contributions. The employer will claim no deduction for such contributions.

## **If a business has never purchased health insurance coverage for its employees, should it consider establishing and funding an HDHP?**

Yes. There presently are many small businesses that have chosen not to furnish any health insurance coverage to their employees because of the cost. With the lower premium cost associated with an HDHP, a business may now be able to afford some of this cost. A person who is covered by an HDHP is certainly better off than one who has no health coverage.

## **How will a person use HSA funds?**

An individual will use HSA funds to pay medical expenses to meet the plan's deductible, co-pays, and other expenses not covered by the HDHP.

Because there is no time limit as to when a person must reimburse themselves for medical expenses which were paid with personal funds, the HSA may be used to accumulate wealth faster than most other methods available. A person can reimburse himself at any point in the future, as long as the necessary documentation has been retained.

If an individual withdraws HSA funds and uses them to pay or reimburse the qualified medical expenses of himself or herself, a spouse or any dependent, then the amount withdrawn will not be taxed. In order to receive this tax-free treat-

ment, the HSA must exist at the time the medical expense is incurred.

If an account owner withdraws the funds and does not use them to pay or reimburse qualified medical expenses, then the amount withdrawn will be taxed at the individual's applicable marginal income tax rate. A 20% additional tax will generally apply if the recipient is younger than age 65. Under current law, the withdrawal of funds to pay HDHP or other medical insurance premiums is not considered a qualified medical expense; such distribution will be taxed and will be subject to the additional tax if the person is younger than age 65. Note: HSA funds used for a spouse or a dependent qualify as qualified medical expense.

### **Is the business' role limited with respect to an employee's HSA?**

Yes. It is very limited. A business has no responsibility to monitor how a person uses the funds within his or her HSA. The employer has no direct role in the establishment of the HSA. The individual (i.e. the employee) and the HSA custodian must sign the plan agreement form. The employer does not sign the HSA plan agreement.

Employers are only responsible for determining the following with respect to an employee's eligibility and maximum annual contribution limit for HSA contributions: (1) whether the employee is covered under an HDHP (and the deductible) or low-deductible health plan or plans (including health FSAs and HRAs) sponsored by that employer; and (2) the employee's age (for catch-up contributions). The employer may rely on the employee's representation as to his or her date of birth.

An employer who has agreed to make HSA contributions pursuant to an employee's instructions, must contribute those funds on a timely basis to the employee's HSA.

A business needs to keep in mind that the IRS has adopted the general rule that once the funds are contributed to a person's HSA, there is no authority allowing the return of such money, even if the employer somehow made a mistake.

### **What governmental reporting will an employer do with respect to the contributions it makes to an employee's HSA?**

The employer will have to prepare the employee's Form W-2 to coincide with the type of contribution made to the HSA. An "employer" contribution to an employee's HSA is excluded from income for income, social security and



Medicare tax purposes. A payroll-deduction contribution which is contributed to an employee's HSA is subject to income, social security, and Medicare taxes. An employer will be required to report HSA contributions on an employee's W-2 form. The IRS has stated that "W" and the contribution amount are to be inserted in box 12 of the Form W-2. An employer will want to review the IRS instructions for completing Form W-2; see the IRS website: [www.irs.gov](http://www.irs.gov).

## **Are rollover and transfer contributions to HSAs permitted?**

Rollover and transfer contributions from Archer MSAs and other HSAs into an HSA are permitted. Rollovers and transfers into HSAs are subject to rules very similar to the rules applying to IRAs. The consequence of rolling or transferring funds from an Archer MSA or an HSA to another HSA is that the funds will not be taxed in the income of the account owner even though the funds were not used to pay the qualified medical expenses of the account owner. A rollover or transfer from one HSA to another HSA is permissible, even though the individual is ineligible to make an annual HSA contribution because he or she is no longer covered by an HDHP.

## **Are special transfer contributions ever permitted?**

Yes. HSA law changes enacted on December 20, 2006, allow an individual with funds in a traditional IRA (and, in limited cases, a Roth IRA), who is eligible to make an HSA contribution, to make a special election once during their lifetime to transfer funds from their IRA to their HSA. The amount transferred in such a direct trustee-to-trustee transfer will not be taxed. This amount shall not exceed the annual contribution limit for self-only or family coverage, as applicable, as based on the HDHP coverage as of the time of the special transfer, or, in some cases, the amount of an earlier qualified HSA funding distribution. Thus, the maximum amount eligible for this special transfer for 2023 is \$3,850 for single coverage and \$7,750 for family coverage. These contribution amounts will be increased by the catch-up amount of \$1,000, if applicable.

This one-time transfer rule allows a person to change funds which would be taxable (money distributed from an IRA) to funds which will escape taxation if they are withdrawn from the HSA and used to pay qualified medical expenses.

## **When can an HSA distribution occur?**

An individual can receive a distribution from his or her HSA at any time. The individual needs to understand the income tax consequences.

In general, a person does not want to withdraw funds from an HSA if the funds are not used to pay a qualified medical expense. The person must include the distribution in income, pay the applicable tax and pay an additional tax of 20%. A substantial tax amount may be owed. There is no withholding with respect to an HSA distribution. This means a person probably needs to comply with the federal estimated tax payment rules. Additional taxes and penalties may apply if the federal estimated tax rules are not followed.

## **What “medical expenses” qualify for tax-free distributions?**

Medical expenses for HSA purposes are defined in Code section 213. IRS Publication 502 should also be reviewed. Tax-free distributions generally include any medical expense that could qualify as a medical expense itemized deduction on an individual’s tax return. However, the payment of most medical insurance premiums will not qualify for tax-free treatment. Note: If a distribution is made from an HSA for medical expenses, those same medical expenses cannot be itemized as a deduction on the individual’s tax return.

An HSA owner no longer needs to obtain a prescription for an over-the-counter medicine or drug in order to treat such expense as a qualified medical expense.

*The information provided in this brochure is not intended to be legal or tax advice. You should consult your attorney or tax advisor for information that relates to your specific circumstances.*