

Understanding HSA Tax Forms

Watch for your 1099-SA form this week. Your HSA custodian should send a 1099-SA to all HSA owners that took a distribution from their HSA. This notice explains that form as well as the other key tax forms for HSAs. HSAs offer fantastic tax benefits, but the IRS uses these forms to double check people are filing their returns correctly.

HSA Tax Forms.

• **1099-SA - Distribution Report.** HSA custodians are required to send an [IRS Form 1099-SA](#) to you and the IRS each year you take a distribution from your HSA. The purpose of this form is to give the IRS a report showing if you took any money out of your HSA for the year. Most HSA distributions are "normal" or "code 1" distributions. This includes distributions for eligible medical expenses (a doctor visit) and most non-eligible medical expenses (a car muffler). This surprises a lot of people as the qualified medical and non-qualified distributions are lumped together. The IRS looks to you to clarify the distributions on the IRS Form 8889. You need to state that you used all the money for an eligible medical expense or you will generally need to pay taxes and penalties. Other codes include: excess (code 2), disability (code 3), and death distribution (code 4 or 6). If all of your HSA distributions were for eligible medical expenses you will not owe any taxes or penalties. If you use a tax preparer or tax preparation software, the forms should be completed for you.

• **Form 5498-SA- Contribution Report.** HSA custodians must send an [IRS Form 5498-SA](#) to you and the IRS each year. The main purpose of this form is to inform the IRS how much you contributed to your HSA. The IRS then uses this to check to make sure you do not claim an HSA deduction above the amount of your HSA contribution. **You will not get this form until after tax season** (required by June 1) because the IRS wants custodians to record all contributions, including those made as late as your tax filing due date. Accordingly, think of this form as an IRS tool to check on you - it's not to help you complete your tax return. You need to know how much you contributed to your HSA. The amount will be on your HSA statements and possibly your W-2 if the contributions were made through an employer (look at box 12 for a Code W -that's HSA).

• **1040 Line 25.** This is where you take your HSA contribution deduction. It's an "above-the-line" deduction meaning that you get the deduction whether or not you itemize. The deduction is not based on income thresholds. Pre-tax employer contributions and pre-tax payroll deferral are not put on this line because your employer already excluded them the contributions from income on the [Form W-2](#) - see Form 8889 below for details. Look also in box 12 of your W-2 Form, Code W refers to amounts that an employer put in your HSA pre-tax (both employer and employee payroll deferral amounts).

• **Form 8889-Schedule to 1040.** You must file a [Form 8889](#), an attachment to the 1040 form, for each year you make an HSA contribution or receive a distribution from your HSA. If you use tax preparation software, the software will do the form for you.

Contributions - Part I Lines 1-13. The top part of the form determines the deduction amount for line 25 on the 1040. The form separates employer contributions that were already pre-tax from those you can deduct. Generally contributions made through your employer are not taxable income on the W-2 and therefore you cannot deduct the HSA contribution on the 1040. Contributions that you made on your own generally are deductible on the 1040. The form also checks to make sure you are eligible for an HSA and that you did not exceed the federal limits. The form reviews factors like family versus single health coverage, your age for catch-up contributions and whether your spouse also has an HSA.

Distributions - Part II - Lines 14-17. The lower part of the form validates that you used your HSA distributions for qualified medical expenses. Remember the 1099-SA just lumps both eligible and non-eligible together. Line 15 is the key. You must write the dollar amount of your eligible medical expense distributions from the HSA on this line. For many of you this will match your 1099-SA total distribution because you only used your HSA to pay for qualified medical expenses. If not, you may have to pay taxes plus add a 20% penalty for the non-eligible distributions.

We encourage you to visit our [Individual Resource Center](#) to learn more about your HSA.

This is designed to provide general information in regard to the subject matter covered. It should be used with the understanding that we are not rendering legal, accounting or tax advice. Such services should be provided by your own advisors. Accordingly, any information in this document cannot be used by any taxpayer for purposes of avoiding penalties under the Internal Revenue Code.