

It's tax time. This newsletter covers common HSA tax questions.

Can you just give me a ballpark savings estimate? The answer depends on your marginal federal tax rate, your state income tax rate, how much you contribute and other factors; such as, whether you contribute pre-tax through your employer. Individuals can claim a 2019 tax deduction of up to \$3,500 for individuals (\$3,550 for 2020) and \$7,000 for families (\$7,100 for 2020) plus a \$1,000 catch-up if you are between ages 55 and 65 (same for 2020).

If you assume a 25% marginal federal income tax rate, a 4% state income tax rate and a person making the maximum family contribution (\$7,000), the savings would be \$2,030.00 for a family High Deductible Health Plan (HDHP) ($\$7,000 \times 29\%$) or \$1,015.00 for a single HDHP ($\$3,500 \times 29\%$). You save an additional 7.65% for 2019 in payroll taxes (for Social Security, Medicare and Federal Unemployment) if you contribute pre-tax through payroll deferral or if your employer makes a contribution pre-tax for you.

In addition to the tax deduction, funds in an HSA grow tax free. Note: a few states, like CA, do not allow a state income tax break for HSAs.

How do I actually get the tax benefit? HSA contributions are tax deductible as an "above-the-line" deduction found on line 25 of the 2019 IRS Form 1040. "Above-the-line" means that you get the benefit of the deduction even if you take the standard deduction and do not itemize. Unlike other deductions, no income limits apply so even high income people can take advantage of the HSA deduction. You must file Form 8889 as an attachment to your 1040. If you use tax preparation software, the software will take care of this form for you. **IMPORTANT: see the next question for employer contributions and HSA payroll deferral.**

What if my employer actually put the money in the HSA? If your HSA contribution was made pre-tax by your employer or through a Section 125 payroll deferral plan (you deferred some of your pay pre-tax through the employer), you cannot deduct the HSA contribution on your tax return. You cannot deduct it because it was never included in your income. This is good news because you already got the tax benefit and it was pre-FICA and FUTA too. Look at Box 12 of your Form W-2, if there is a number there with a Code W, you are in this position. You are still required to complete IRS Form 8889 and include it as an attachment to your 1040.

Can I still contribute to my HSA for 2019? Yes, individuals have until April 15th, 2020 to make their 2019 HSA contributions. The bank custodian will need the money deposited before April 15, so do not wait until the last minute to make your contribution. Since you are making the contribution in 2020 for 2019, be sure to earmark the contribution for 2019.

For example, John has a family high deductible health plan that he started January 1, 2019 but never got around to making an HSA contribution. He now (March 2020) wants to contribute \$7,000 for 2019. He can also contribute another \$7,100 for 2020 (assuming he is still insured under a qualified HDHP) for a total HSA contribution of \$14,100 potentially all made on the same day.

How do I find out how much I contributed last year? Your bank statement or W-2 will show your contributions for 2019. Your statements should be available online with your custodian. If you made contributions through your employer, the amount is reflected in Box 12 of the W-2.

How do taxes on HSA distributions work? Distributions for eligible medical expenses are tax free. The IRS however, still requires some reporting. Your bank custodian will generate a 1099-SA that shows the amount of any distribution you took from your HSA in 2019. A copy is sent to you and the IRS. You need to reflect that distribution on the 1040 and complete Form 8889. Form 8889 is required for both HSA contributions and distributions. If the distribution is for eligible medical expenses, it will not be taxable income. Completing Form 8889 is a short; albeit confusing, form.

Can I use the Form 1040EZ if I have an HSA? You cannot use the 1040EZ if you made a contribution to your HSA or took a distribution from your HSA in 2019. You are eligible for the 1040EZ if you have an HSA but did not make a contribution or receive a distribution in 2019.