TAX YEAR
2024

Health Savings Accounts (HSAs)

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www.savemooretax.com

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Health Savings Accounts (HSAs)

A health savings account (HSA) is a tax-exempt or custodial account set up with a qualified HSA trustee to pay or reimburse certain medical expenses incurred by you, your spouse, and your qualified dependents. The medical expenses must not be reimbursable by insurance or other sources, and distributions from HSA funds will not give rise to a medical expense deduction on your tax return.

Qualifying for an HSA

To be eligible, you must meet the following requirements.

- Must be covered under a high deductible health plan (HDHP).
- Cannot have any other health coverage. ***Exception:*** Coverage for specific things, such as disability, dental care, vision care, telehealth visits, and long-term care, can be purchased in addition to the HDHP without disqualifying the HSA.
- Cannot be enrolled in Medicare.
- Cannot be eligible to be claimed as a dependent on someone else's tax return.

Last-Month Rule

If you are an eligible individual on the first day of the last month of your tax year (December 1 for most taxpayers), you are considered to be eligible for the entire year. Special rules apply if you do not remain an eligible individual during a full 12-month period. Exceptions apply in case of death or disability.

Spousal HSAs

The HSAs cannot be joint accounts. You and your spouse must each open a separate account. However, if only one has an account, the funds in that account can be used to pay for expenses incurred by the other spouse, as well as your other family members.

High Deductible Health Plan (HDHP)

An HDHP can provide for preventive care benefits without a deductible or with a deductible below the minimum limit ($1,600 for 2024 self-only coverage and $3,200 for 2024 family coverage). Family HDHP coverage covers an eligible individual and at least one other person.

Prescription Drug Plans

An HDHP can include a prescription plan as long as it does not provide benefits until the minimum annual deductible has been met.

Family Plans with Deductibles for Both Family and Individuals

Some family plans have deductibles for both the family as a whole and for individual family members. If either the deductible for the family as a whole, or the deductible for an individual family member, is below the minimum annual deductible for family coverage, the plan does not qualify as an HDHP.

Example: *Joe has family health insurance coverage in 2024. The annual deductible for the family plan is $4,500. His plan also has an individual deductible of $2,000 for each family member. His plan does not qualify as an HDHP because the deductible for an individual family member is below the minimum annual deductible ($3,200) for family coverage.*

Other Health Coverage

You (and your spouse if holding family coverage) generally cannot have any other health coverage that is not an HDHP. You can still be eligible even if your spouse has non-HDHP coverage, provided you are not covered by that plan.

Health Savings Accounts (HSAs)

Contributions

Contributions for a tax year must be made by the return due date (no extensions).

HSA Limitations

	2024	2023
Annual contribution limit is limited to:		
Self-only coverage, under age 55	$4,150	$3,850
Self-only coverage, age 55 or older	$5,150	$4,850
Family coverage, under age 55*	$8,300	$7,750
Family coverage, age 55 or older*	$9,300	$8,750
Minimum annual deductibles:		
Self-only coverage	$1,600	$1,500
Family coverage	$3,200	$3,000
Maximum annual deductible and out-of-pocket expense limits:		
Self-only coverage	$8,050	$7,500
Family coverage	$16,100	$15,000

* Assumes only one spouse has an HSA. For 2024, if both spouses have separate eligible HSAs, the combined family limit is $8,300. However, each spouse age 55 or older may contribute an additional $1,000. Thus, if both spouses are age 55 or older, the combined family limit is $10,300.

Rules for Married People

If both you and your spouse are eligible individuals, and either spouse has family HDHP coverage, both spouses are treated as having family HDHP coverage. The total contribution limit for 2024 is $8,300 (if both spouses are under age 55), split equally unless you agree on a different allocation. Special rules apply if either spouse is over age 55 or enrolled in Medicare.

Contribution Deduction

You can deduct HSA contributions you made out of pocket, as well as contributions made by someone else (other than your employer) on your behalf, as an adjustment to income. Deductible contributions are reported on Schedule 1 (Form 1040), *Additional Income and Adjustments to Income.*

Distributions

The following rules apply to distributions from HSAs.

- Distributions used to pay for, or to reimburse for, qualified medical expenses not covered by insurance are tax free. Distributions for any other purpose are taxable and subject to an additional 20% penalty. ***Exception:*** The 20% penalty does not apply to distributions after reaching age 65, or death.
- Distributions used to pay for medical expenses that were incurred prior to establishing the HSA are taxable.
- Qualified medical expenses include the following:
  - Medical expenses that require a prescription,
  - Over-the-counter products and medications without a prescription,
  - Insulin, and
  - Menstrual care products, including tampons, pads, liners, cups, sponges, or other similar products.
- Qualified medical expenses do not include the insurance premiums for the high deductible health plan. However, insurance premiums for long-term care (subject to limits) and health coverage while unemployed qualify. Also, if over age 65, health insurance premiums (other than Medigap premiums) are qualified medical expenses for HSA purposes.

Employer Participation

Employers can provide employees with high deductible health plan coverage and contribute to an HSA on behalf of an employee and exclude the value of the benefits from taxable wages.

Death of HSA Participant

If your spouse is the beneficiary, your spouse is treated as the participant of the HSA after your death. If someone other than your spouse inherits your HSA, it stops being an HSA and the FMV becomes taxable to the beneficiary in the year of your death. If your estate is the beneficiary, the FMV is taxable on your final Form 1040. Any taxable amount is reduced by your qualified medical expenses paid within one year after the date of death.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 73.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.

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