



**NEWBURG & COMPANY<sup>LLP</sup>**  
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**Health Savings Account (HSA) Tax Update**

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For eligible individuals, HSAs offer a tax-favorable way to set aside funds (or have their employer do so) to meet future medical needs. Here are the key tax-related elements:

- Contributions you make to an HSA are deductible, with limits,
- Contributions your employer makes aren't taxed to you,
- Earnings on the funds within the HSA are not taxed, and
- Distributions from the HSA to cover qualified medical expenses are not taxed.

Who is eligible? To be eligible for an HSA, you must be covered by a "high deductible health plan". You must also not be covered by a plan which (1) is not a high deductible health plan, and (2) provides coverage for any benefit covered by your high deductible plan. (It's okay, however, to be covered by a high deductible plan along with separate coverage, through insurance or otherwise, for accidents, disability, or dental, vision, or long-term care.)

Deduction limits. You can deduct contributions to an HSA for the year up to the total of your monthly limitations for the months you were eligible. For 2010, the monthly limitation on deductible contributions for a person with self-only coverage is 1/12 of \$3,050. For an individual with family coverage, the monthly limitation on deductible contributions is 1/12 of \$6,150. Thus, deductible contributions are not limited by the amount of the annual deductible under the high deductible health plan.

OTC and distribution rules. As of 2011, this new health reform law excludes the costs for over-the-counter drugs not prescribed by a doctor from being reimbursed through a Health Reimbursement Account (HRA) or health Flexible Savings Account (FSAs) and from being reimbursed on a tax-free basis through a Health Savings Account (HSA) or Archer Medical Savings Accounts (MSA). Distributions from a HSA or an Archer MSA that are not used for qualified medical expenses are subject to a 10% tax and the new legislation increases this to 20%.

Additionally, allowable contributions to health FSAs will be capped at \$2,500 per year, effective for tax years beginning after December 31, 2012. The dollar amount will be indexed for inflation after 2013. If you would like more information regarding the changes to HSAs and FSAs please contact Newburg & Company LLP.

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