

## HSA CARRY OVER AND TAX STATUS

Some individuals have told us that their tax professional has informed them that they need to spend all of the money in their HSA each year. Others have told us that their tax professional has indicated that they have to pay taxes on any HSA contribution that is not spent during the year. While it is true that HSA disbursements must be spent on qualified medical expenses or they become taxable (and may also have a penalty), it is not accurate that all funds in the HSA account must be expended each year. You are allowed unlimited carryover and the carryover is not subject to tax. This document provides supporting information to help explain the tax status of HSA Carryover funds.

According to IRS rules and HSA FAQs, neither of these are the case. An HSA differs from a Flexible Spending Account (FSA). You own your HSA. The funds belong to you and as long as they are used for qualified medical expenses, the funds and any interest or investment income earned on the account are considered to be tax exempt. Following are excerpts from several publications that should help provide clarification concerning this issue.

### **From IRS Publication 969**

**What are the benefits of an HSA?** You may enjoy several benefits from having an HSA.

- You can claim a tax deduction for contributions you, or someone other than your employer, make to your HSA even if you do not itemize your deductions on Form 1040.
- Contributions to your HSA made by your employer (including contributions made through a cafeteria plan) may be excluded from your gross income.
- The contributions remain in your account from year to year until you use them.
- The interest or other earnings on the assets in the account are tax free.
- Distributions may be tax free if you pay qualified medical expenses. See [Qualified medical expenses](#), later.
- An HSA is “portable” so it stays with you if you change employers or leave the work force.

### **Balance in an HSA**

An HSA is generally exempt from tax. You are permitted to take a distribution from your HSA at any time; however, only those amounts used exclusively to pay for qualified medical expenses are tax free. Amounts that remain at the end of the year are generally carried over to the next year (see [Excess contributions](#), earlier). Earnings on amounts in an HSA are not included in your income while held in the HSA.

## **From Blue Shield of California – FAQs About HSAs and HSA-Compatible Health Plans**

[https://www.blueshieldca.com/bsca/find-a-plan/understanding-insurance/hsa-information/faqs.sp#answer\\_12](https://www.blueshieldca.com/bsca/find-a-plan/understanding-insurance/hsa-information/faqs.sp#answer_12)

### **What happens to the money in my HSA at the end of each calendar year?**

Whatever amount you don't spend stays in the account to be used for future medical expenses. It will roll over year-after-year. The funds can continue to earn interest for you.

## **From HSA Resource Center – Mid County Bank**

<http://www.yourhsaadmin.com/MC/faq.php#n2c>

### **2. Are there any limits on the amount I have to spend or on the amount I can carry over to subsequent years?**

No, there are no limits and the entire balance can be carried over from year to year.

## **From Connect Your Care**

<http://www.connectyourcare.com/cyc2/faqs/faqs-hsa.html#long>

### **How long do I have to use my HSA for eligible expenses?**

You can use your HSA to pay for eligible expenses incurred any time after you opened your HSA. There is no time limit between when you incur the qualified expenses and when you withdraw the corresponding amount from your HSA. Some people, called HSA savers, pay for current expenses out of pocket so that they can invest their HSA money and grow the account for future use. You should always save your itemized receipts and other paperwork to verify eligible expenses for when you withdraw funds, whether it is now or at some point in the future.

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