

**SPECIAL POINTS OF INTEREST:**

- **Indexed Amounts for Health Savings Accounts**
- **HSA Full-Year Contribution for Part-Year Coverage**

## Indexed Amounts for Health Savings Accounts

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[www.spbatpa.org](http://www.spbatpa.org)

IRS has released guidance on the 2008 maximum contribution levels for Health Savings Accounts (HSAs), the out-of-pocket spending limits for high deductible health plans (HDHPs), and the minimum deductible amounts for HDHPs. These amounts are included in IRS Revenue Procedure 2007-36.

### **Annual Contribution Limits**

For calendar year 2008, the maximum annual HSA contribution for an eligible individual with self-only coverage is \$2,900.

For calendar year 2008, the maximum annual HSA contribution for an eligible individual with family coverage is \$5,800.

Note: Under prior law, the maximum annual HSA contribution was the lesser of the statutory indexed amount or the deductible of the HDHP. For taxable years beginning after December 31, 2006, the maximum annual HSA contribution is the indexed statutory amount, without regard to the deductible of the high deductible health plan. The maximum contribution is determined on a monthly basis and is pro rated for the number of months of the year an individual is covered under a HDHP (however, a full year contribution is possible for only part-year coverage if certain conditions are satisfied).

### **Minimum Deductible Amounts for HSA-Compatible HDHPs**

For calendar year 2008, the minimum deductibles for HDHPs for self-only coverage is \$1,100 and \$2,200 for family coverage. These remained unchanged from 2007.

## **Out-of-Pocket Spending on HSA-Compatible HDHPs**

For calendar year 2008, the annual out-of-pocket expenses (deductibles, co-payments, and other amounts, but not premiums) must not exceed \$5,600 for self-only coverage and \$11,200 for family coverage.

## **HSA Full-Year Contribution for Part-Year Coverage**

The "Tax Relief and Health Care Act of 2006" (P.L. 109-432) provided a gift that will make it easier to enroll more participants in HSAs and high deductible health plans (HDHP) in the last half of the year. But you may have a difficult time explaining the concept to HSA prospective enrollees.

First, we will review the provision by comparing it to the prior rule and then offer a suggestion on how to present the concept to prospective HSA enrollees.

Under the prior rule, an individual's annual HSA contribution limit was calculated based on the number of months he or she was eligible for an HSA. If individuals became HSA eligible toward the end of a tax year, these individuals were only permitted to contribute a small amount to their HSAs for the current tax year.

Under the new rule, effective for tax years beginning in 2007, individuals who become covered under a high deductible health plan in a month other than January may make the full HSA contribution for the entire tax year even though they were only covered under a high deductible health plan for a portion of the year. The individual is treated as though he was covered under the same high deductible health plan in which he was enrolled during the last month of the taxable year for the entire taxable year.

This seems almost too good to be true. Well, there is a catch. In order to obtain the full-

year contribution for part-year HSA eligibility, the individual must maintain a high deductible health plan for the entire subsequent tax year. If an individual fails to remain HSA eligible during the subsequent tax year, the portion of the HSA contributions attributable to the months that the individual was not HSA eligible must be includible in gross income and subject to a 10% penalty in the year that the individual loses HSA eligibility (exceptions apply for death or disability). The current tax return would need to reflect the disallowed portion of the HSA contribution (amending prior tax returns is not an issue). According to Paul Miller of the IRS Tax Forms and Publications division, the individual is not required to withdraw the portion of the HSA contribution attributable to the months that the individual was not HSA eligible. Paul noted that IRS would soon be releasing some guidance clarifying this point.

### Example 1

Individual "A" becomes covered under a high deductible health plan on the first day of October and is otherwise an HSA eligible individual ("A" has no other disqualifying coverage, such as a flexible spending account). "A" was not an HSA eligible individual for any month prior to October.

**Prior Rule** – Under the prior rule, the individual was only permitted to contribute 3/12's of the maximum HSA contribution for the taxable year because the individual was only HSA eligible for three months during the tax year (October, November, December).

**New Rule** – Under the new rule, the individual is permitted to contribute the maximum permitted contribution for the entire taxable year, provided that they remain HSA eligible for the remainder of the current taxable year, as well as the next taxable year.

### Example 2

Individual "B" becomes covered under a high deductible health plan on the first day of July 2007 and is otherwise an HSA eligible individual. "B" was not an HSA eligible individual for any month prior to July. If individual "B" remains covered under a high deductible health plan through July 2008 (12 months later) will "B" be able to take advantage of the full year contribution for only a partial year of HSA eligibility?

No. The new rule requires "B" to remain covered through the end of the current tax year (2007) as well as through the entire following tax year (2008) to obtain the full year contribution for 2007.

### Example 3

Individual "C" becomes covered under a high deductible health plan on the first day of December 2007 and is otherwise an HSA eligible individual. "C" was not an HSA eligible individual in any other month in 2007. "C" may make HSA contributions as if she had been enrolled in the HDHP for all of 2007. If "C" ceases to be covered under a

HDHP sometime in 2008, an HSA contribution otherwise permitted for the period from January 2007 through November 2007 now must be included in income in 2008.

If an individual fails to remain covered under a high deductible health plan during the following tax year or loses HSA eligibility for another reason (such as becoming covered under a spouse's FSA), then the maximum allowable HSA contribution reverts to a month-to-month determination. The full year contribution for part year coverage is lost.

### Presenting the Concept

In explaining this concept to prospective HSA/HDHP participants who are thinking of starting this type of arrangement at any time other than January, the following statement may be helpful.

Even though you are starting an HSA/HDHP arrangement after the first month of the year, you may still put the maximum amount into your HSA as though you were covered under an HSA/HDHP arrangement from January 1, provided that you do three things.

1. Remain covered under an HDHP through the end of the current tax year.
2. Remain covered under an HDHP through the end of the following tax year.
3. Continue to satisfy the other HSA eligibility requirements (for example, not obtaining any other non-HDHP plan coverage or not becoming covered under Medicare).