

# COMPLIANCE OVERVIEW

## Health Savings Accounts (HSAs)—Reporting Rules

A health savings account (HSA) is a trust or account used to pay medical expenses that a high deductible health plan (HDHP) does not pay. HSAs offer triple tax advantages to account owners, including tax exemptions for contributions, earnings and distributions. Many employers offer HDHPs to control premium costs and pair the coverage with HSAs to help employees cover their health care expenses.

The Internal Revenue Service (IRS) has stated that all contributions to HSAs and distributions from HSAs are reportable transactions for federal tax purposes. HSA owners and employers that contribute to HSAs are both responsible for HSA reporting.

This Compliance Overview provides general HSA reporting information for both employers and individuals.

### LINKS AND RESOURCES

- Individual [Form W-2](#) for reporting contributions made to each employee's HSA
- [Small business](#) and [large business](#) income tax returns for deducting employer contributions to employee HSAs
- IRS Forms: [Form 8928](#); [Form 8889](#); [Form 1040](#); [Form 5498-SA](#); [Form 5329](#); [Form 1099-SA](#)

### Employer Requirements

- Employers report their contributions to employees' HSAs using the Form W-2.
- Employers may deduct their HSA contributions on their business tax returns.
- Employers have no reporting responsibilities relating to HSA distributions.

### HSA Owner Requirements

- HSA owners report distributions and contributions (regardless of the source) on Form 8889.
- Form 8889 must be filed as an attachment to Form 1040 (even if the HSA owner had no other reason to file the Form 1040).

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## Employer Reporting

### HSA Contributions

In general, when an employer makes contributions to employees' HSAs, the employer must report them on the individual [Form W-2](#) for each employee that received a contribution. The amount an employer reports on Form W-2 must also include any money the employee elected to contribute to the HSA through a cafeteria plan. These HSA contributions are non-taxable wages that the employer must enter in **Box 12** of Form W-2 along with the **code letter W**.

#### Different Rules for Taxable Contributions

If, at the time of payment, it is not reasonable to believe that an HSA contribution will be excludable from an employee's income, the contribution is subject to federal income tax withholding, Social Security and Medicare taxes and federal unemployment taxes. A contributing employer must report these contributions in Boxes 1, 3 and 5 of the employee's Form W-2 and on the employer's Form 940.

The employee, and not the employer, is primarily responsible for determining eligibility for HSA contributions. [IRS Notice 2004-50](#) states that an employer is only responsible for determining **whether the employee is covered under an HDHP or any low-deductible health plan sponsored by the employer**, including health FSAs and HRAs.

In addition, the Affordable Care Act (ACA) requires employers to report the aggregate cost of employer-sponsored group health coverage on their employee's Forms W-2, in Box 12, using code letters DD. Currently, this reporting requirement only applies to employers that file 250 or more Forms W-2. This requirement does not apply to HSA contributions because these amounts are required to be separately accounted for on the Form W-2 (under Box 12 using code letter W).

Employers may deduct their HSA contributions on their [small business](#) or [large business income tax returns](#). For most employer contributions, the amounts are reportable as employer-provided coverage for medical expenses under an accident or health plan. These amounts are not subject to employment taxes.

Special rules apply for HSA contributions made on behalf of certain individuals, such as sole proprietors, partners of partnerships, members of limited liability companies and individuals who own more than 2% of an S-corporation.

Contributions made by:	To the HSA of:	Are treated as:
A partnership	A partner	Distributions of money, which are: <ul style="list-style-type: none"><li>• Not deductible by the partnership; and</li><li>• Not included in the partner's net earnings from self-employment.</li></ul>
A partnership	A partner, as compensation for services rendered	Guaranteed payments, which are: <ul style="list-style-type: none"><li>• Deductible by the partnership or S-corporation (if certain requirements are satisfied); and</li><li>• Included in the partner or 2% employee-shareholder's gross income.</li></ul>
An S-corporation	A 2% employee-shareholder, as compensation for services rendered	

*\*Distributions of money and guaranteed payments are reported on Schedule K-1 of Form 1065.*

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For any calendar year, the deadline for making contributions to an employee's HSA is the date on which the employee's income tax return for that year is due. However, due to the COVID-19 pandemic, the deadline for making HSA contributions for 2019 was extended from April 15, 2020, to July 15, 2020.

If an employer makes a contribution on or after Jan. 1 of the year subsequent to the year to which the contribution is allocated (for example, a contribution for 2020 made on Jan. 2, 2021), the employer must:

- Notify the employee and the HSA trustee that the contribution is for the previous year;
- Deduct the contribution amount in the year in which the contribution was made (even though it was allocated to the previous year); and
- Report the contribution amount on the employee's Form W-2 for the year in which the contribution was made (even though it was allocated to the previous year).

Finally, employers that make HSA contributions outside of a cafeteria plan are required to make comparable contributions to the HSAs of all comparable participating employees. If an employer made contributions to an employee's HSA that did not meet comparability requirements, the employer may have to pay an excise tax of **35%** of the amount contributed in violation of the rules. These excise taxes are reportable on [Form 8928](#).

## HSA Distributions

Because employers have no involvement in how HSA owners spend HSA funds, they do not have any HSA reporting responsibilities relating to HSA distributions.

## HSA Owner Reporting

HSA owners must report all HSA distributions and contributions (regardless of the source) on [Form 8889](#) and file this form with the IRS as an attachment to [Form 1040](#). The attachment requirement applies if there were any distributions from an HSA even if the HSA owner had no taxable income or any other reason for filing a Form 1040.

## HSA Contributions

HSA owners must report any HSA contributions that were made by employers (including any amount the employee elected to contribute through a cafeteria plan) on **Line 9 of Form 8889**. This should match the amount reported by the employer in Box 12 of the W-2. All other contributions (except amounts rolled over to the HSA from other specific accounts) must be reported on **Line 2 of Form 8889**.

An HSA owner should receive a copy of [Form 5498-SA](#) from the HSA administrator showing the total contributions made to the HSA. HSA contributions are subject to annual maximums depending on the type of HDHP coverage the HSA owner has. The deadline for HSA administrators to provide the Form 5498-SA is June 1. However, due to the COVID-19 pandemic, the IRS [postponed](#) the usual deadline of June 1, 2020 to Aug. 31, 2020.

### HSA CONTRIBUTION LIMITS

TYPE OF COVERAGE	2021	2022	2023
Self-only HDHP coverage	\$3,600	\$3,650	\$3,850
Family HDHP coverage	\$7,200	\$7,300	\$7,750

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Any amount above these limits may be taxable as income and subject to a 6% penalty. Excess contribution taxes and penalties can be calculated using Part VII of [Form 5329](#).

If the contribution limits were not exceeded, the HSA owner may be able to deduct his or her contributions that were entered on Line 2 of Form 8889 from his or her taxable income. The HSA owner must enter the amount for this deduction on **Line 25 of Form 1040**.

## **HSA Distributions**

When distributions were made from an HSA, the account administrator must report them to the IRS on [Form 1099-SA](#) and provide a copy to the HSA owner. The HSA owner must then enter the distribution amount from Form 1099-SA onto **Line 14a of Form 8889**.

The total amount that an HSA owner used to pay qualified medical expenses is entered on **Line 15 of Form 8889**.

If Form 1099-SA from an administrator contains a “5” in Box 3, this indicates that the HSA owner did not use a distribution for qualified medical expenses. An HSA owner must enter the total amount that he or she did not use to pay qualified medical expenses on **Line 16 of Form 8889**. This amount may or may not be the same as the amount listed by the administrator in Box 3 of Form 1099-SA.

**Taxable Distributions:** An HSA owner must pay income tax, and, unless an exception applies, a 20% penalty on the amount that was not used for qualified expenses. If applicable, the 20% penalty is calculated on **Line 17b of Form 8889**.

The HSA owner must enter the taxable amount from Line 16 of Form 8889 onto Line 21 of Form 1040. Any 20% penalty amount from Line 17b of Form 8889 must be entered onto Line 62 of Form 1040. The HSA owner must also write “HSA” next to each of these amounts on Form 1040.