PROHIBITED TRANSACTIONS FAQ

How do I avoid a prohibited transaction?

- Keep a register and receipts of all pending transactions.
- Balance your receipts to your monthly HSA statement or online banking.
- Only consider the available balance when making purchases.
- DO NOT overdraft the HSA.
- Consider using a personal checking and debit card for your HSA transaction and reimburse yourself from the HSA.
- Adhere to IRS eligible qualifying transactions only.
- Maintain a sufficient balance to cover reoccurring medical expenses.
- Consider setting up monthly contributions up to your allowable contribution limit.
- Avoid NSF/OD fees as these will also trigger a prohibited transaction if the account balance is $0.
- Mark your HSA debit card to distinguish it from your other debit and credit cards, store it separately, and only carry your HSA debit card when necessary.

What happens if my HSA has a prohibited transaction?

The HSA owner is notified of the prohibited transaction by their financial institution.

- The HSA ceases to be classified as an HSA retroactive to January of the current year.
- The HSA suffix must be closed.
- The HSA owner can open a new HSA suffix at the sole discretion of the credit union.
- Any deposits or contributions made into the HSA will be reported on 1099-SA. The assets are then deemed distributed and subject to tax and the 20 percent penalty tax for non-qualified distributions.

Once the account goes negative can I have my credit union reverse the transaction?

Once a transaction posts to an account, it cannot be reversed.

If my HSA account is closed because of a prohibited transaction, do you notify IRS?

Yes, IRS is notified during annual tax season using 1099-SA with distribution code 5 in Box 3. The amount reported as income will include the balance as of January 1st the year of the Prohibited Transaction.

Contact me to get started!

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Your savings federally insured to at least $250,000 and backed by the full faith and credit of the United States Government

NCUA

National Credit Union Administration, a U.S. Government Agency

EQUAL HOUSING OPPORTUNITY

HSA 11/23

Health Savings Account (HSA)

Be better prepared with a tax-advantaged Health Savings Account

Suncoast Credit Union

Benefits of a HSA Account

A Health Savings Account (HSA) is a personal savings account that allows you to set aside pre-tax money for health care expenses and keep more money in your pocket.

You have the opportunity to invest a portion of your HSA for tax-free earning potential that can help you be better prepared for medical expenses now or anytime in the future.

How It Works:

Add. When you are enrolled in a high-deductible health plan, you can contribute funds into an HSA, up to the annual maximum.

Spend. Use funds from your HSA when you need to pay for qualified health care expenses.

Save. Any unused funds in your HSA roll over from year to year regardless if you change health care plans, jobs, or even retire. Plus, tax-free interest and investment earnings allow your money to grow faster over time.

FAQs:

What is an HSA?

The IRS defines a Health Savings Account as "a tax- exempt trust or custodial account set up with a qualified HSA trustee to pay or reimburse certain medical expenses you incur. The primary advantage is that the money can be deposited into and withdrawn from the account tax-free, in accordance with IRS Tax Code, providing savings when paying for approved healthcare related expenses.

How do I qualify for an HSA?

To be eligible to enroll in a Health Savings Account, individuals must meet several requirements as outlined by IRS:

- Must participate in a High Deductible Healthcare Plan
- May not have any additional health coverage (some exceptions are permitted)
- May not be enrolled in Medicare
- Cannot be claimed as a dependent on someone else's tax return

What is a High Deductible Health Plan?

An HDHP is a health insurance plan that has lower premiums and higher deductibles than traditional health plans. The premium is the amount of money consumers pay each month for the plan. The deductible is the amount of money the plan holder is responsible for paying when receiving healthcare services. The goal with HDHPs is to reduce healthcare costs by making people better consumers of healthcare.

How does an HSA work?

With each paycheck, you deposit a fixed amount of money into the account on a pre-tax basis. You can make contributions until age 65. As you incur medical expenses, you can withdraw money to pay for them without owing taxes on the withdrawals. Also, any unused money in the account can accrue tax-free interest for as long as it remains in your account.

How much can I contribute to my HSA?

Subject to change year to year. For 2023 HSA contributions limits are $3,850 for individuals and $7,750 for families. 2024 contribution limits are $4,150 for individuals and $8,300 for families. There is no change to the $1,000 catch up contribution for individuals that are 55 years old and older.

Do the funds in my HSA roll over?

Yes, because the funds in the account belong to the named owner, they automatically roll over each year and will remain in the account until you use them.

How can I withdraw from my HSA?

Funds located in your HSA can be accessed via a debit card, checks or account withdrawal.

Can I use my HSA for my spouse and child?

Yes, HSA funds can be used for any approved healthcare expense incurred by your spouse and family if they are your legal dependents even if they are not on your HDHP.

Who can contribute to my HSA?

You and your employer can contribute to your Health Savings Account. In addition, anyone can make a contribution on your behalf, including family members.

PROHIBITED TRANSACTIONS

Many factors play a role in deeming a HSA transaction as prohibited. The most common when referring to a checking or savings account is the extension of credit. HSAs are not permitted to overdraft. When an HSA goes negative, it is considered an extension of credit. Please refer to IRS Tax Code 4975(c)(1)(d)(2) for a complete list.

Sources: www.irs.gov "IRS Publication 969" and "Internal Revenue Code 4975 Prohibited Transaction."

Please consult your tax or legal advisor regarding specific use of health savings accounts.