2005

Department of the Treasury
Internal Revenue Service

Instructions for Form 8889

Health Savings Accounts (HSAs)

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Purpose of Form

Use Form 8889 to:

- Report health savings account (HSA) contributions (including those made on your behalf and employer contributions),
- Figure your HSA deduction, and
- Report distributions from HSAs.

Additional information. See Pub. 969, Health Savings Accounts and Other Tax-Favored Health Plans, for more details on HSAs.

Who Must File

You must file Form 8889 if any of the following applies.

- You (or someone on your behalf, including your employer) made contributions for 2005 to your HSA.
- You received HSA distributions in 2005.
- You acquired an interest in an HSA because of the death of the account beneficiary. See *Death of Account Beneficiary* on page 2.

Definitions

Eligible Individual

To be eligible to have contributions made to your HSA, you must be covered under a high deductible health plan (HDHP) and have no other health coverage except permitted coverage. If you are an eligible individual, anyone can contribute to your HSA. However, you cannot be enrolled in Medicare or be claimed as a dependent on another person's tax return. You must be an eligible individual on the first day of a month to take an HSA deduction for that month.

Account Beneficiary

The account beneficiary is the individual on whose behalf the HSA was established.

HSA

Generally, an HSA is a health savings account set up exclusively for paying the qualified medical expenses of the account beneficiary or the account beneficiary's spouse or dependents.

Distributions From an HSA

Distributions from an HSA used exclusively to pay qualified medical expenses of the account beneficiary, spouse, or dependents are excludable from gross income. You can receive distributions from an HSA even if you are not currently eligible to have contributions made to the HSA. However, any part of a distribution not used to pay qualified medical expenses is includible in gross income and is subject to an additional 10% tax unless an exception applies.

Qualified Medical Expenses

Generally, qualified medical expenses for HSA purposes are unreimbursed medical expenses that could otherwise be deducted on Schedule A (Form 1040). See the Instructions for Schedule A and Pub. 502, Medical and Dental Expenses (Including the Health Coverage Tax Credit). However, you cannot treat insurance premiums as qualified medical expenses unless the premiums are for:

- Long-term care (LTC) insurance,
- Health care continuation coverage (such as coverage under COBRA),
- Health care coverage while receiving unemployment compensation under federal or state law, or
- Medicare and other health care coverage if you were 65 or older (other than premiums for a Medicare supplemental policy, such as Medigap).

High Deductible Health Plan

An HDHP is a health plan that meets the following requirements.

	Self-only coverage	Family coverage
Minimum annual deductible	$1,000	$2,000
Maximum annual out-of-pocket expenses*	$5,100	$10,200

* This limit does not apply to deductibles and expenses for out-of-network services if the plan uses a network of providers. Instead, only deductibles and out-of-pocket expenses (such as copayments and other amounts, but not premiums) for services within the network should be used to figure whether the limit is reached.

An HDHP can provide preventive care and certain other benefits with no deductible or a deductible below the minimum annual deductible. For more details, see Pub. 969. An HDHP does not include a plan if substantially all of the coverage is for accidents, disability, dental care, vision care, or long-term care. An HDHP also cannot be insurance that you are permitted to have in addition to an HDHP. See *Other Health Coverage* below.

Other Health Coverage

If you have an HSA, you (and your spouse, if you have family coverage) generally cannot have any health coverage other than an HDHP. But your spouse can have health coverage other than an HDHP if you are not covered by that plan. If you have a health flexible spending arrangement or health reimbursement arrangement, see Pub. 969.

Exceptions. You can have additional insurance that provides benefits only for:

- Liabilities under workers' compensation laws, tort liabilities, or liabilities arising from the ownership or use of property,
- A specific disease or illness, or
- A fixed amount per day (or other period) of hospitalization.

You can also have coverage (either through insurance or otherwise) for accidents, disability, dental care, vision care, or long-term care.

For information on prescription drug plans, see Pub. 969.

Disabled

An individual generally is considered disabled if he or she is unable to engage in any substantial gainful activity due to a physical or mental impairment which can be expected to result in death or to continue indefinitely.

Death of Account Beneficiary

If the account beneficiary's surviving spouse is the designated beneficiary, the HSA is treated as if the surviving spouse were the account beneficiary. The surviving spouse completes Form 8889 as though the HSA belonged to him or her.

If the designated beneficiary is not the account beneficiary's surviving spouse, or there is no designated beneficiary, the account ceases to be an HSA as of the date of death. The beneficiary completes Form 8889 as follows.

- Enter "Death of HSA account beneficiary" across the top of Form 8889.
- Enter the name(s) shown on your tax return and your SSN in the spaces provided at the top of the form and skip Part I.
- On line 12a, enter the fair market value of the HSA as of the date of death.
- On line 13, for a beneficiary other than the estate, enter qualified medical expenses incurred by the account beneficiary before the date of death that you paid within 1 year after the date of death.
- Complete the rest of Part II.

If the account beneficiary's estate is the beneficiary, the value of the HSA as of the date of death is included on the account beneficiary's final income tax return. Complete Form 8889 as described above, except you should complete Part I, if applicable.

The distribution is not subject to the additional 10% tax. Report any earnings on the account after the date of death as income on your tax return.

Deemed Distributions From HSAs

The following situations result in deemed distributions from your HSA.

- You engaged in any transaction prohibited by section 4975 with respect to any of your HSAs, at any time in 2005. Your account ceases to be an HSA as of January 1, 2005, and you must include the fair market value of all assets in the account as of January 1, 2005, on line 12a.
- You used any portion of any of your HSAs as security for a loan at any time in 2005. You must include the fair market value of the assets used as security for the loan as income on Form 1040, line 21.

Any deemed distribution will not be treated as used to pay qualified medical expenses. Generally, these distributions are subject to the additional 10% tax.

Rollovers

A rollover is a tax-free distribution (withdrawal) of assets from one HSA or Archer MSA that is reinvested in another HSA. Generally, you must complete the rollover within 60 days after you received the distribution. You can make only one rollover contribution to an HSA during a 1-year period. See Pub. 590, Individual Retirement Arrangements (IRAs), for more details and additional requirements regarding rollovers.

Note. If you instruct the trustee of your HSA to transfer funds directly to the trustee of another HSA, the transfer is not considered a rollover. There is no limit on the number of these transfers. Do not include the amount transferred in income, deduct it as a contribution, or include it as a distribution on line 12a.

Specific Instructions

Name and social security number (SSN). Enter your name(s) as shown on your tax return and the SSN of the HSA beneficiary. If married filing jointly and both you and your spouse have HSAs, complete a separate Form 8889 for each of you.

Part I—HSA Contributions and Deductions

Use Part I to figure:

- Your HSA deduction,
- Any excess contributions you made (or those made on your behalf), and
- Any excess contributions made by an employer (see *Excess Employer Contributions* on page 4).

Figuring Your HSA Deduction

The amount you can deduct for HSA contributions is limited by the applicable portion of the HDHP's annual deductible (line 3) reduced by any contributions to your Archer MSAs (line 4) and any employer contributions (line 9). If you were age 55 or older at the end of 2005, you can increase the contribution limit to your HSA by up to $600 (line 3 or line 7 depending on your type of coverage and marital status).

You can make deductible contributions to your HSA even if your employer made contributions. However, if you (or someone on your behalf) made contributions in addition to any employer contributions, you may have to pay an additional tax. See *Excess Contributions You Make* on page 4.

You cannot deduct any contributions you made after you were enrolled in Medicare. Also, you cannot deduct contributions if you can be claimed as a dependent on someone else's 2005 tax return.

How To Complete Part I

Complete lines 1 through 11 as instructed on the form. However, if you, and your spouse if filing jointly, are both eligible individuals and either of you have an HDHP with family coverage, complete a separate Form 8889 for each spouse as follows.

- If either spouse has an HDHP with family coverage, you both are treated as having only the family coverage plan. Disregard any plans with self-only coverage.
- If both spouses have HDHPs with family coverage, you both are treated as having only the family coverage plan with the lowest annual deductible.

Combine the amounts on line 11 of both Forms 8889 and enter this amount on Form 1040, line 25. Be sure to attach both Forms 8889 to your tax return.

Line 1

If you were covered by a self-only HDHP and a family HDHP at different times during the year, check the box for the plan that was in effect for a longer period. If you were covered by both a self-only HDHP and a family HDHP at the same time, you are treated as having family coverage during that period.

Line 2

Do not include employer contributions or amounts rolled over from another HSA or Archer MSA. See *Rollovers* on this page.

Line 3

When figuring the amount to enter on line 3, apply the following rules.

1. Use the family coverage amount if you or your spouse had an HDHP with family coverage. Disregard any plans with self-only coverage.
2. If you and your spouse had more than one HDHP with family coverage, use the plan with the lowest annual deductible.
3. If you had family coverage with both an umbrella deductible and an embedded deductible for each individual covered by the plan, your annual deductible is the smaller of the:

a. Umbrella deductible, or
b. Embedded individual deductible multiplied by the number of family members covered by the plan.

Example. In 2005, you had family coverage under an HDHP for you and your spouse. Both of you were under age 55 at the end of 2005. Your HDHP will pay benefits for any family member whose covered expenses exceed $2,000 (the embedded individual deductible) and will pay benefits for all family members after the covered expenses exceed $5,000 (the umbrella deductible). Your annual deductible is $4,000 (the smaller of $5,000 or $4,000 ($2,000 × 2)). Your maximum HSA deduction is $4,000 (the smaller of $4,000 or $5,250).

If you did not have the same coverage on the first day of every month during 2005, or you were age 55 or older at the end of 2005, go through the chart at the top of the Line 3 Limitation Chart and Worksheet on this page for each month of 2005. Enter the result on the worksheet next to the corresponding month.

TIP *If eligibility and coverage did not change from one month to the next, enter the same number you entered for the previous month.*

Line 6

Spouses that have separate HSAs and had family coverage under an HDHP at any time during 2005, use the following rules to figure the amount on line 6.

- If you were treated as having family coverage for each month you were an eligible individual, divide the amount on line 5 equally between you and your spouse, unless you both agree on a different allocation (such as allocating nothing to one spouse). Enter your allocable share on line 6.
- If you were not treated as having family coverage for each month you were an eligible individual, use the following steps to determine the amount to enter on line 6.

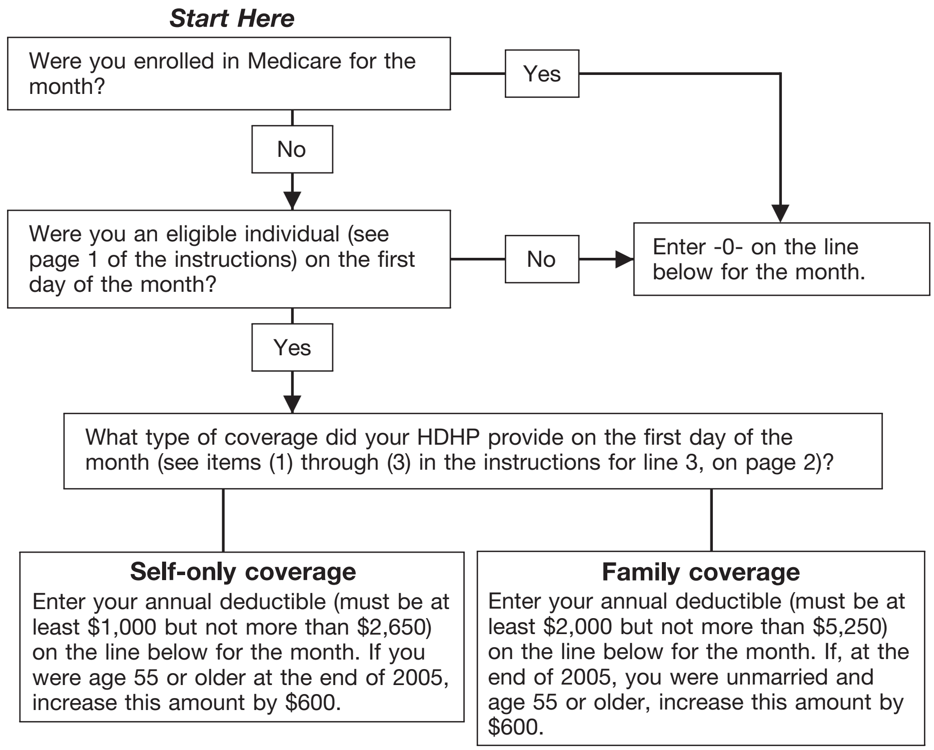
Step 1. Refigure the contribution limit that would have been entered on line 5 if you had entered on line 3 the total of the worksheet amounts only for the months you were treated as having family coverage. When refiguring line 5, use the same amount you previously entered on line 4.

Step 2. Divide the refigured contribution limit from *Step 1* equally between you and your spouse, unless you both agree on a different allocation (such as allocating nothing to one spouse).

Step 3. Subtract the part of the contribution limit allocated to your spouse in *Step 2* from the amount

Line 3 Limitation Chart and Worksheet

Go through this chart for each month of 2005.
See the instructions for line 3 that begin on page 2.
(Keep for your records)



Month in 2005	Amount from chart above
January	
February	
March	
April	
May	
June	
July	
August	
September	
October	
November	
December	
Total for all months	
Limit. Divide the total by 12. Enter here and on line 3	

you previously entered on line 5. Enter the result on line 6.

Example. In 2005, you are an eligible individual and have self-only coverage under an HDHP with a $1,200 deductible. In March, you get married and as of April 1, you have family coverage under an HDHP with a $2,400 deductible. Neither you nor your spouse were age 55 or older at the end of 2005 so you do not qualify for the additional contribution amount. Your spouse has a separate HSA and is an eligible individual from April 1 through December 31, 2005. The contribution limit for the 9 months of family coverage is $1,800 ($2,400 × 9/12). You and your spouse can divide the $1,800 in any allocation you agree to. Your contribution limit for the 3 months of self-only coverage is $300 ($1,200 × 3/12). This amount is not divided between you and your spouse. If you and your spouse divide the contribution limit for the months of family coverage equally, you will show $1,200 on line 6 ($2,100 from your original line 5 minus $900 allocated to your spouse). Your spouse will show $900 on line 6.

Line 7

Additional Contribution Amount

If, at the end of 2005, you were age 55 or older and married, multiply $50 by the number of months during 2005 that both of the following apply.

1. You or your spouse had family coverage under an HDHP on the first day of the month.
2. You were not enrolled in Medicare for the month.

Enter the result on line 7.

TIP *If items (1) and (2) apply to all months during 2005, enter $600 on line 7.*

Example. At the end of 2005, you were age 55 and married. You had family coverage under an HDHP from July 1 through December 31, 2005 (6 months). You were not enrolled in Medicare in 2005. You would enter an additional contribution amount of $300 on line 7 ($50 × 6 months).

Line 9

Employer Contributions

Employer contributions include any amount an employer contributes to any HSA for you for 2005. These contributions should be shown in box 12 of Form W-2 with code W. If your employer made excess contributions, you may have to report the excess as income. See *Excess Employer Contributions* on this page for details.

Line 11

If you or someone on your behalf (or your employer) contributed more to your HSA than is allowable, you may have to pay an additional tax on the excess contributions. Figure the excess contributions using the instructions below. See Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts, to figure the additional tax.

Excess Contributions You Make

To figure your excess contributions (including those made on your behalf), subtract your deductible contributions (line 11) from your actual contributions (line 2). However, you can withdraw some or all of your excess contributions for 2005 and they will be treated as if they had not been contributed if:

- You make the withdrawal by the due date, including extensions, of your 2005 tax return (but see the *Note* below),
- You do not claim a deduction for the amount of the withdrawn contributions, and
- You also withdraw any income earned on the withdrawn contributions and include the earnings in “Other income” on your tax return for the year you withdraw the contributions and earnings.

Excess Employer Contributions

Excess employer contributions are the excess, if any, of your employer’s contributions over your limitation on line 8. If the excess was not included in income on Form W-2, you must report it as “Other income” on your tax return. However, you can withdraw some or all of the excess employer contributions for 2005 and they will be treated as if they had not been contributed if:

- You make the withdrawal by the due date, including extensions, of your 2005 tax return (but see the *Note* below),
- You do not claim an exclusion from income for the amount of the withdrawn contributions, and
- You also withdraw any income earned on the withdrawn contributions and include the earnings in “Other income” on your tax return for the year you withdraw the contributions and earnings.

Note. If you timely filed your return without withdrawing the excess contributions, you can still make the withdrawal no later than 6 months after the due date of your tax return, excluding extensions. If you do, file an amended return with “Filed pursuant to section 301.9100-2” written at the top. Include an explanation of the withdrawal. Make all necessary changes on the amended return (for example, if you reported the contributions as excess contributions on your original return, include an amended Form 5329 reflecting that the withdrawn contributions are no longer treated as having been contributed).

Part II—HSA Distributions

Line 12a

Enter the total distributions you received in 2005 from all HSAs. These amounts should be shown in box 1 of Form 1099-SA.

Line 12b

Include on line 12b any distributions you received in 2005 that qualified as a rollover contribution to another HSA. See *Rollovers* on page 2. Also include any excess contributions (and the earnings on those excess contributions) included on line 12a that were withdrawn by the due date, including extensions, of your return. See the instructions for line 11 on this page.

Line 13

CAUTION *Only include on line 13 distributions from your HSA that were used to pay or reimburse qualified medical expenses (see page 1) you incurred on or after the first day of the first month you became an eligible individual (see page 1).*

In general, include on line 13 distributions from all HSAs in 2005 that were used for the qualified medical expenses (see page 1) of:

- Yourself and your spouse.
- All dependents you claim on your tax return.
- Any person you could have claimed as a dependent on your return except that person received $3,200 or more of gross income or filed a joint return.
- Any person you could have claimed as a dependent except that you, or your spouse if filing jointly, were claimed as a dependent on someone else’s 2005 return.

CAUTION *You cannot take a deduction on Schedule A (Form 1040) for any amount you include on line 13.*

Lines 15a and 15b

Additional 10% Tax

HSA distributions included in income (line 14) are subject to an additional 10% tax unless one of the following exceptions apply.

Exceptions to the Additional 10% Tax

The additional 10% tax does not apply to distributions made after the account beneficiary—

- Dies,
- Becomes disabled (see page 1), or
- Turns age 65.

If any of the exceptions apply to any of the distributions included on line 14, check the box on line 15a. Enter on line 15b only 10% (.10) of any amount included on line 14 that does not meet any of the exceptions.

Example 1. You turned age 63 in 2005 and received a distribution from an HSA that is included in income. Do not check the box on line 15a because you (the account beneficiary) did not meet the age exception for the distribution. Enter 10% of the amount from line 14 on line 15b.

Example 2. You turned age 65 in 2005. You received distributions that are included in income both before and after you turned age 65. Check the box on line 15a because the additional 10% tax does not apply to the distributions made after the date you turned age 65. However, the additional 10% tax does apply to the distributions made on or before the date you turned age 65. Enter on line 15b, 10% of the amount of these distributions included in line 14.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The average time and expenses required to complete and file this form will vary depending on individual circumstances. For the estimated averages, see the instructions for your income tax return.

If you have suggestions for making this form simpler, we would be happy to hear from you. See the instructions for your income tax return.