

Qs and As on Tax Reporting for Medicare Medical Savings Accounts

Medicare MSA enrollees need to file Form 1040, U.S. Individual Income Tax Return, along with Form 8853, "Archer MSAs and Long-Term Care Insurance Contracts", to the Internal Revenue Service (IRS) for any year distributions are made from their Medicare MSA account to ensure that they are not taxed on their MSA account withdrawals. These tax forms must be filed for any year in which a MSA account withdrawal is made even if the enrollee has no taxable income or any other reason for filing Form 1040.

1) Do I have to report information to the Internal Revenue Service (IRS) on my Medicare Medical Savings Account (MSA)?

Yes. MSA enrollees must file Form 1040, and Form 8853, to the IRS each year they make a withdrawal from their MSA account. It is important for MSA enrollees to file these forms to report their MSA account withdrawals to ensure that they are not taxed. Note that MSA account withdrawals for qualified medical expenses are tax-free, while account withdrawals for non-medical expenses are subject to both income tax and a 50% tax penalty.

2) How can I get information on MSA tax-reporting requirements?

There are two IRS Publications relevant to Medicare MSAs.

IRS Publication 969, titled "Health Savings Accounts and Other Tax-Favored Health Plans", includes information on medical savings accounts, including Medicare MSAs. Publication 969 has information on what are qualified medical expenses for MSAs, which adds to medical expense information in Publication 502. [*See below for information on non-prescription drugs and on premiums.]

IRS Publication 502, titled "Medical and Dental Expenses", defines what types of services and products generally count as qualified medical expenses that could otherwise be deducted as qualified medical expenses on your income tax return.

These publications are available on the web at www.irs.gov or from 1-800-TAX-FORM (1-800-829-3676). On the web, look up publications at "Publications".

3) What tax forms do I need?

Form 1040, U.S. Individual Income Tax Return, and Form 8853 must be filed in order to avoid paying taxes on MSA account withdrawals.

Form 8853 is the tax form used for reporting MSA account withdrawals. Form 8853, "Archer** MSAs and Long-Term Care Insurance Contracts", Section B, is the place to report both on Medicare MSA account withdrawals (which the IRS calls distributions) and on the enrollee's qualified medical expenses for the year. [Note that this is a different form from Form 8889 this is used for HSAs.]

Form 8853 and Form 8853 Instructions are available at www.irs.gov or from 1-800-TAX-FORM (1-800-829-3676). On the web, look up forms at "Forms".

4) Should I expect to receive a statement from my MSA plan or the MSA bank trustee managing my MSA savings account on account withdrawals for the year?

Yes. You will receive a Form 1099-SA from your MSA bank trustee reporting your MSA savings account distributions by January 31 each year. The bank trustee is also required to report this information to the IRS.

5) Do I have to file these tax forms even if I am not otherwise required to file an income tax return?

Yes. Form 1040 and Form 8853 must be filed in order to avoid paying taxes on MSA account withdrawals even if you are not otherwise required to file an income tax return.

6) When am I required to file?

By April 15 of the following year, unless filing for an extension on your tax return.

7) Who can I call for more information or for help in preparing my tax return?

You may call the IRS toll-free for live telephone assistance from Monday – Friday, 7 a.m. – 10 p.m. local time, or you may visit your local IRS office.

- For individuals: 1-800-829-1040.
- For people with hearing impairments: 1-800-829-4059 (TDD).
- Face-to-Face Assistance -- In certain areas, IRS also has local offices. Find your local office at www.irs.gov/localcontacts/index.html.

* More details on qualified medical expenses discussed in Publication 969:

- You generally cannot use an MSA for insurance premiums. Health care premiums, including drug plan premiums, are not a qualified medical expense for MSAs (while they are included in Publication 502). Other insurance premiums, such as for long-term care, are qualified medical expenses for purposes of both Publication 969 and Publication 502.
- You can use your MSA account for non-prescription drugs. Non-prescription drugs are qualified medical expenses in MSAs (while insulin is the only non-prescription drug included in Publication 502).

** What is an "Archer" medical savings account? Archer MSAs are a broad category of MSAs. IRS considers Medicare MSAs a type of Archer MSA.

Important reminder: Information reported to the IRS on MSA account withdrawals for qualified medical expenses is NOT the same expense information that will count towards the MSA plan deductible. Remember that only Medicare Part A and Part B expenses will

count towards the MSA plan deductible. Therefore, MSA enrollees will also want to keep track of their qualified medical expenses that are also Part A and Part B expenses and that will count towards the MSA plan deductible.