Department of the Treasury
Internal Revenue Service

Publication 969
Cat. No. 24216S

Health Savings Accounts and Other Tax-Favored Health Plans

For use in preparing

2004 Returns

Get forms and other information faster and easier by:

Internet • www.irs.gov

FAX • 703–368–9694 (from your fax machine)

Contents

What's New

Scope of publication. This publication formerly only covered medical savings accounts (MSAs). The publication has been expanded to include information on health savings accounts and other tax-favored health plans.

Health savings accounts. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 authorized the establishment of new health savings accounts effective January 1, 2004. These accounts are similar to Archer Medical Savings Accounts in that they permit eligible individuals to save for, and pay, health care expenses on a tax-free basis.

Reminder

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

Introduction

Various employer-sponsored programs are designed to give employees tax advantages to offset health care costs. These plans are also generally available to self-employed individuals. This publication explains the following programs.

- Health savings accounts (HSAs).
- Medical savings accounts (Archer MSAs and Medicare Advantage MSAs).

- Health flexible spending arrangements (FSAs).
- Health reimbursement arrangements (HRAs).

An HSA may receive contributions from an eligible individual or any other person, including an employer or a family member, on behalf of an eligible individual. Contributions, other than the employer contributions, are deductible on the eligible individual's return whether or not the individual itemizes deductions. Employer contributions are not included in income. Distributions from an HSA that are used to pay qualified medical expenses are not taxed.

An Archer MSA may receive contributions from an eligible individual and his or her employer, but not both in the same year. Contributions by the individual are deductible whether or not the individual itemizes deductions. Employer contributions are not included in income. Distributions from an MSA that are used to pay qualified medical expenses are not taxed.

A Medicare Advantage MSA is an Archer MSA designated by Medicare to be used solely to pay the qualified medical expenses of the account holder who is eligible for Medicare. No Medicare Advantage MSAs have been established as of the revision date of this publication.

A health FSA may receive contributions from an eligible individual. Employers may also contribute. Contributions are not includible in income. Reimbursements from an FSA that are used to pay qualified medical expenses are not taxed.

An HRA must receive contributions from the employer only. Employees may not contribute. Contributions are not includible in income. Reimbursements from an HRA that are used to pay qualified medical expenses are not taxed.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

You can e-mail us at **taxforms@irs.gov*. Please put "Publications Comment" on the subject line.

You can write to us at the following address:

Internal Revenue Service
Individual Forms and Publications Branch
SE:W:CAR:MP:T:I
1111 Constitution Ave. NW, IR-6406
Washington, DC 20224

We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

Health Savings Accounts (HSAs)

A health savings account (HSA) is a tax-exempt trust or custodial account that you set up with a qualified HSA trustee to pay or reimburse certain medical expenses you incur. You must be an eligible individual to qualify for an HSA.

No permission or authorization from the IRS is necessary to establish an HSA. When you set up an HSA, you will need to work with a trustee. A qualified HSA trustee can be a bank, an insurance company, or anyone already approved by the IRS to be a trustee of individual retirement arrangements (IRAs) or Archer MSAs. The HSA can be established through a trustee that is different from your health plan provider.

Your employer may already have some information on HSA trustees in your area.

TIP *If you have an Archer MSA, you can generally roll it over into an HSA tax free. See Rollovers, later.*

What are the benefits of an HSA? You may enjoy several benefits from having an HSA.

- You can claim a tax deduction for contributions you, or someone other than your employer, make to your HSA even if you do not itemize your deductions on Form 1040.
- Contributions to your HSA made by your employer (including contributions made through a cafeteria plan) may be excluded from your gross income.
- The contributions remain in your account from year to year until you use them.
- The interest or other earnings on the assets in the account are tax free.
- Distributions may be tax free if you pay qualified medical expenses. See *Qualified medical expenses,* later.
- An HSA is "portable" so it stays with you if you change employers or leave the work force.

Qualifying for an HSA

To be an eligible individual and qualify for an HSA, you must meet the following requirements.

- You have a high deductible health plan (HDHP), described later, on the first day of the month.
- You have no other health coverage except what is permitted under *Other health coverage,* later.
- You are not enrolled in Medicare.
- You cannot be claimed as a dependent on someone else's 2004 tax return.

CAUTION *If another taxpayer is entitled to claim an exemption for you, you cannot claim a deduction for an HSA contribution. This is true even if the other person does not actually claim the deduction.*

TIP *Each spouse who is an eligible individual who wants an HSA must open a separate HSA. You cannot have a joint HSA.*

High deductible health plan (HDHP). An HDHP has:

- A higher annual deductible than typical health plans, and
- A maximum limit on the sum of the annual deductible and out-of-pocket medical expenses that you must pay for covered expenses. Out-of-pocket expenses include copayments and other amounts, but do not include premiums.

An HDHP may provide preventive care benefits without a deductible or with a deductible below the minimum annual deductible. Preventive care includes, but is not limited to the following.

1. Periodic health evaluations, including tests and diagnostic procedures ordered in connection with routine examinations, such as annual physicals.
2. Routine prenatal and well-child care.
3. Child and adult immunizations.
4. Tobacco cessation programs.
5. Obesity weight-loss programs.
6. Screening services. This includes screening services for the following.
   a. Cancer.
   b. Heart and vascular diseases.
   c. Infectious diseases.
   d. Mental health conditions.
   e. Substance abuse.
   f. Metabolic, nutritional, and endocrine conditions.
   g. Musculoskeletal disorders.
   h. Obstetric and gynecological conditions.
   i. Pediatric conditions.
   j. Vision and hearing disorders.

   For more information on screening services, see Notice 2004–23, which is on page 725 of Internal Revenue Bulletin 2004-15 at *www.irs.gov/pubs/irs-irbs/irb04–15.pdf.*

The following table shows the minimum annual deductible and maximum annual deductible and other out-of-pocket expenses for HDHPs for 2004.

Type of Coverage	Minimum Annual Deductible	Maximum Annual Deductible and Other Out-of-Pocket Expenses *
Self-only	$1,000	$5,000
Family	$2,000	$10,000

* 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 for services within the network should be used to figure whether the limit applies.

Self-only HDHP coverage is an HDHP covering only an eligible individual. Family HDHP coverage is an HDHP covering an eligible individual and at least one other individual (whether or not that individual is an eligible individual).

Example. An eligible individual and his dependent child are covered under an “employee plus one ” HDHP offered by the individual’s employer. This is family HDHP coverage.

State requirements. Generally, if your state requires a health plan to provide certain benefits without a deductible or at a deductible that is less than the minimum annual deductible, the plan may not be an HDHP. However, for 2004 and 2005, a plan that would otherwise qualify will be treated as an HDHP if those benefits were required by state law in effect on January 1, 2004.

Family plans that do not meet the high deductible rules. There are some family plans that have deductibles for both the family as a whole and for individual family members. Under these plans, if you meet the individual deductible for one family member, you do not have to meet the higher annual deductible amount for the family. If either the deductible for the family as a whole or the deductible for an individual family member is below the minimum annual deductible for family coverage, the plan does not qualify as an HDHP.

Example. You have family health insurance coverage in 2004. The annual deductible for the family plan is $3,500. This plan also has an individual deductible of $1,500 for each family member. The plan does not qualify as an HDHP because the deductible for an individual family member is below the minimum annual deductible ($2,000) for family coverage.

Other health coverage. You (or your spouse if you file jointly) generally cannot have any other health coverage that is not an HDHP. However, you can have additional insurance that provides benefits only for the following items.

- Liabilities incurred under workers’ compensation laws, tort liabilities, or liabilities related to ownership or use of property.
- A specific disease or illness.
- A fixed amount per day (or other period) of hospitalization.

You can also have coverage (whether provided through insurance or otherwise) for the following items.

- Accidents.
- Disability.
- Dental care.
- Vision care.
- Long-term care.

Plans in which substantially all of the coverage is through the above listed items are not HDHPs. For example, if your plan provides coverage substantially all of which is for a specific disease or illness, the plan is not an HDHP for purposes of establishing an HSA.

Prescription drug plans. You can have a prescription drug plan, either as part of your HDHP or a separate plan (or rider), and qualify as an eligible individual if the plan does not provide benefits until the minimum annual deductible of the HDHP has been met. If you can receive benefits before that deductible is met, you are not an eligible individual. However, for 2004 and 2005, you can qualify as an eligible individual even though you can receive benefits under a separate prescription drug plan (or rider) before you meet the minimum annual deductible of the HDHP.

Other employee health plans. An employee covered by an HDHP and a health FSA or an HRA that pays or reimburses qualified medical expenses generally cannot make contributions to an HSA. Health FSAs and HRAs are discussed later.

However, an employee can make contributions to an HSA while covered under an HDHP and one or more of the following arrangements.

- Limited-purpose health FSA or HRA. These arrangements can pay or reimburse the items listed under *Other health coverage,* except long-term care. Also, these arrangements can pay or reimburse preventive care expenses because they can be paid without having to satisfy the deductible.
- Suspended HRA. Before the beginning of an HRA coverage period, you can elect to suspend the HRA. The HRA does not pay or reimburse, at any time, the medical expenses incurred during the suspension period except preventive care and items listed under *Other health coverage.* When the suspension period ends, you are no longer eligible to make contributions to an HSA.
- Post-deductible health FSA or HRA. These arrangements do not pay or reimburse any medical expenses incurred before the minimum annual deductible amount is met. The deductible for these arrangements does not have to be the same as the deductible for the HDHP, but benefits may not be provided before the minimum annual deductible amount is met.
- Retirement HRA. This arrangement pays or reimburses only those medical expenses incurred after retirement. After retirement you are no longer eligible to make contributions to an HSA.

Contributions to an HSA

Any eligible individual can contribute to an HSA. For an employee's HSA, the employee, the employee's employer, or both may contribute to the employee's HSA in the same year. For an HSA established by a self-employed (or unemployed) individual, the individual can contribute. Family members or any other person may also make contributions on behalf of an eligible individual.

Contributions to an HSA must be made in cash. Contributions of stock or property are not allowed.

Limit on contributions. The amount you or any other person can contribute to your HSA depends on the type of HDHP coverage you have and your age. For 2004, if you have self-only coverage, you can contribute up to the amount of your annual health plan deductible, but not more than $2,600. If you have family coverage, you can contribute up to the amount of your annual health plan deductible, but not more than $5,150. See *Rules for married people* (discussed later).

You must be an eligible individual and have the same coverage all year to contribute the full amount. If you do not qualify to contribute the full amount for the year, determine your contribution limit by using the worksheet for line 3 in the Form 8889 instructions.

Example 1. In 2004, you have an HDHP for your family for the entire months of July through December (6 months). The annual deductible of your HDHP is $4,000. You are under age 55. On the worksheet for line 3 in the Form 8889 instructions, you show $4,000 for each month (July – December) that you are an eligible individual. You divide the total of those amounts ($24,000) by 12 to determine your contribution limit ($2,000) for the year.

Example 2. For 2004, you are an eligible individual with self-only HDHP coverage. Your annual deductible is $1,200. You get married in March and beginning April 1, 2004, you and your spouse have family HDHP coverage with a $2,400 deductible. Both of you are under age 55. Your spouse is not an eligible individual. On the worksheet for line 3, you would show $1,200 for the first 3 months and $2,400 for the last 9 months. You divide the total of those amounts ($25,200) by 12 to determine your contribution limit ($2,100) for the year.

If your spouse became an eligible individual during 2004, you would have to allocate the deductible for the family HDHP coverage for the period you were both eligible individuals equally between you and your spouse unless you agree on a different allocation, including allocating nothing to one spouse. You would not allocate the self-only deductible between you and your spouse.

Additional contribution. For 2004, if you are an eligible individual who is age 55 or older, your contribution limit is increased by $500. For example, if you have self-only coverage, you can contribute up to the amount of your annual health plan deductible plus $500, but not more than $3,100. However, see *Enrolled in Medicare,* later.

Example. In 2004, you have an HDHP for your family for the entire months of July through December. The annual deductible of the HDHP is $4,000. You reach age 55 on September 5, 2004. On the worksheet for line 3, you would show $4,000 for 3 months (July through September) and $4,500 for 3 months October through December. You divide the total of those amounts ($25,500) by 12 to determine your contribution limit ($2,125) for the year.

TIP *For 2005, the additional contribution amount is $600.*

CAUTION *If you have more than one HSA in 2004, your total contributions to all the HSAs cannot be more than the limits discussed earlier.*

Reduction of contribution limit. You must reduce the amount that can be contributed (including any additional contribution) to your HSA by the amount of any contribution made to your Archer MSA (including employer contributions) for the year. A special rule applies to married people, discussed next, if each spouse has family coverage under an HDHP.

You must reduce the amount you, or any other person, can contribute to your HSA by the amount of any contributions made by your employer that are excludable from your income.

Rules for married people. If either spouse has family coverage, both spouses are treated as having family coverage. If each spouse has family coverage under a separate plan, both are treated as having family coverage under the plan with the lower annual deductible. You must reduce the limit on contributions, before taking into account any additional contributions, by the amount contributed to both spouse's Archer MSAs. After that reduction, the contribution limit is split equally between the spouses unless you agree on a different division.

If both spouses are 55 or older and not enrolled in Medicare, each spouse's contribution limit is increased by the additional contribution. If both spouses meet the age requirement, the total contributions under family coverage cannot be more than $6,150.

Example. For 2004, Mr. Auburn and his wife both have family coverage under separate HDHPs. Mr. Auburn is 58 years old and Mrs. Auburn is 53. Mr. Auburn has a $3,000 deductible under his HDHP and Mrs. Auburn has a $2,000 deductible under her HDHP. Mr. and Mrs. Auburn are both treated as being covered under the HDHP with the $2,000 deductible. Mr. Auburn can contribute $1,500 to an HSA (one-half the $2,000 deductible + $500 additional contribution) and Mrs. Auburn can contribute $1,000 to an HSA (unless Mr. and Mrs. Auburn agree to a different division for the year).

Family coverage with embedded deductible. An HDHP with family coverage may have deductibles for both the family as a whole (the umbrella deductible) and for individual family members (the embedded deductible). In this situation your limit on contributions is the least of the following amounts.

1. The maximum annual contribution limit for family coverage ($5,150 for 2004).
2. The umbrella deductible.
3. The embedded deductible multiplied by the number of family members covered by the plan.

Example 1. For 2004, you have an HDHP with family coverage for you, your spouse, and two dependent children. The HDHP will pay benefits for any family members whose covered expenses exceed $2,000 (the embedded deductible) and will pay benefits for all family members after the family's covered expenses exceed $5,000 (the umbrella deductible). The maximum annual contribution limit is $5,000 (the least of $5,150, $5,000, or $8,000 ($2,000 x 4)).

Example 2. Use the same facts as in *Example 1,* except the HDHP provides coverage only for you and your spouse. The maximum annual contribution limit is $4,000 (the least of $5,150, $5,000, or $4,000 ($2,000 x 2)).

CAUTION *A plan will not qualify as an HDHP if either the umbrella deductible or the embedded deductible is less than the minimum annual deductible ($2,000) for family coverage. If there is no umbrella deductible, the deductible for each family member multiplied by the number of family members cannot exceed the maximum annual deductible and other out-of-pocket expenses ($10,000) for family coverage.*

Enrolled in Medicare. Beginning with the first month you are enrolled in Medicare, you cannot contribute to your HSA.

Example. You turned age 65 in July 2004 and enrolled in Medicare. You had self-only coverage under an HDHP with an annual deductible of $1,000. You are eligible for an additional contribution of $500. Your contribution limit is $750 ($1,500 for 6 months ÷12). You can make contributions for January through June totaling $750, but cannot make any contributions for July through December.

Rollovers. You can roll over amounts from Archer MSAs and other HSAs into an HSA. Rollover contributions do not need to be in cash. Rollovers are not subject to the annual contribution limits.

You must roll over the amount within 60 days after the date of receipt. You can make only one rollover contribution to an HSA during a 1-year period. You cannot roll over amounts from an IRA, an HRA, or a health FSA into an HSA.

When To Contribute

You can make contributions to your HSA for 2004 until April 15, 2005.

Reporting Contributions on Your Return

Contributions made by your employer are not included in your income. You can claim contributions you made and contributions made by any other person, other than your employer, on your behalf, as an adjustment to income.

Form 8889. Report all contributions to your HSA on Form 8889, Health Savings Accounts (HSAs), and file it with your Form 1040. You should include all contributions made for 2004, including those made before April 15, 2005, that are designated for 2004. Contributions made by your employer are also shown on the form.

You should receive Form 5498-SA, HSA, Archer MSA, or Medicare+Choice MSA Information, from the trustee showing the amount contributed to your HSA during the year. Your employer's contributions also will be shown in box 12 of Form W-2, Wage and Tax Statement, with code W. Follow the instructions for Form 8889. Report your HSA deduction on Form 1040, line 28.

Excess contributions. You will have excess contributions if the contributions to your HSA for the year are greater than the limits discussed earlier. Excess contributions are not deductible. Excess contributions made by your employer are included in your gross income. If the excess contribution is not included in box 1 of Form W-2, you must report the excess as "Other income " on your tax return.

Generally, you must pay a 6% excise tax on excess contributions. See Form 5329, Additional Taxes on Qualified Plans (including IRAs) and Other Tax-Favored Accounts, to figure the excise tax.

You may withdraw some or all of the excess contributions and not pay the excise tax on the amount withdrawn if you meet the following conditions.

- You withdraw the excess contributions by the due date, including extensions, of your tax return for the year the contributions were made,
- You 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.

Distributions From an HSA

You will generally pay medical expenses during the year without being reimbursed by your HDHP until you reach the annual deductible for the plan. When you pay medical expenses during the year that are not reimbursed by your HDHP, you can ask the trustee of your HSA to send you a distribution from your HSA.

You can receive tax-free distributions from your HSA to pay or be reimbursed for qualified medical expenses you incur after you establish the HSA. If you receive distributions for other reasons, the amount you withdraw will be subject to income tax and may be subject to an additional 10% tax. You do not have to make distributions from your HSA each year.

For 2004, if you establish an HSA by April 15, 2005, you can receive tax-free distributions for qualified medical expenses incurred on or after the first day of the first month you became an eligible individual.

TIP *If you are no longer an eligible individual, you can still receive tax-free distributions to pay or reimburse your qualified medical expenses.*

A distribution is money you get from your health savings account. The trustee will report any distribution to you and the IRS on Form 1099-SA, Distributions From an HSA, an Archer MSA, or Medicare+Choice MSA.

Qualified medical expenses. Qualified medical expenses are those expenses that would generally qualify for the medical and dental expenses deduction. These are explained in Publication 502, Medical and Dental Expenses. Examples include amounts paid for doctors' fees, prescription and non-prescription medicines, and necessary hospital services not paid for by insurance. Qualified medical expenses are those incurred by you, your spouse, and your dependents.

CAUTION *You cannot deduct qualified medical expenses as an itemized deduction on Schedule A (Form 1040) that are equal to the tax-free distribution from your HSA.*

Special rules for insurance premiums. Generally, you cannot treat insurance premiums as qualified medical expenses for HSAs. You can, however, treat premiums for long-term care coverage, health care coverage while you receive unemployment benefits, or health care continuation coverage required under any federal law as qualified medical expenses for HSAs. If you are age 65 or older, you can treat insurance premiums (other than premiums for a Medicare supplemental policy, such as Medigap) as qualified medical expenses for HSAs.

CAUTION *The premiums for long-term care coverage that you can treat as qualified medical expenses are subject to the limits under section 213(d)(10). These limits are based on age and are adjusted annually.*

Health coverage tax credit. You cannot claim this credit for premiums that you pay with a tax-free distribution from your HSA. See Publication 502 for more information on this credit.

Deemed distributions from HSAs. The following situations result in deemed taxable distributions from your HSA.

- You engaged in any transaction prohibited by section 4975 with respect to any of your HSAs, at any time in 2004. Your account ceases to be an HSA as of January 1, 2004, and you must include the fair market value of all assets in the account as of January 1, 2004, on Form 8889, line 12a.
- You used any portion of any of your HSAs as security for a loan at any time in 2004. You must include the fair market value of the assets used as security for the loan as income on Form 1040, line 21.

RECORDS **Recordkeeping.** You must keep records sufficient to later show that:

- The distributions were exclusively to pay or reimburse qualified medical expenses,
- The qualified medical expenses had not been previously paid or reimbursed from another source, and

- The medical expenses had not been taken as an itemized deduction in any year.

Do not send these records with your tax return. Keep them with your tax records.

Reporting Distributions on Your Return

How you report your distributions depends on whether or not you use the distribution for qualified medical expenses (defined earlier).

- If you use a distribution from your HSA for qualified medical expenses, you do not pay tax on the distribution but you have to report the distribution on Form 8889. Follow the instructions for the form and file it with your Form 1040.
- If you do not use a distribution from your HSA for qualified medical expenses, you must pay tax on the distribution. Report the amount on Form 8889 and file it with your Form 1040. If you have a taxable HSA distribution, include it in the total on Form 1040, line 21, and enter "HSA" and the amount on the dotted line next to line 21. You may have to pay an additional 10% tax on your taxable distribution.

Additional tax. There is an additional 10% tax on the part of your distributions not used for qualified medical expenses. Figure the tax on Form 8889 and file it with your Form 1040. Report the additional tax on Form 1040, line 62, and enter "HSA" and the amount on the dotted line next to line 62.

Exceptions. There is no additional tax on distributions made after the date you are disabled, reach age 65, or die.

Balance in an HSA

An HSA is generally exempt from tax. You are permitted to take a distribution from your HSA at any time; however, only those amounts used exclusively to pay for qualified medical expenses are tax free. Amounts that remain at the end of the year are generally carried over to the next year (see *Excess contributions,* earlier). Earnings on amounts in an HSA are not included in your income while held in the HSA.

Death of HSA Holder

You should choose a beneficiary when you set up your HSA. What happens to that HSA when you die depends on whom you designate as the beneficiary.

Spouse is the designated beneficiary. If your spouse is the designated beneficiary of your HSA, it will be treated as your spouse's HSA after your death.

Spouse is not the designated beneficiary. If your spouse is not the designated beneficiary of your HSA:

- The account stops being an HSA, and
- The fair market value of the HSA becomes taxable to the beneficiary in the year in which you die.

If your estate is the beneficiary, the value is included on your final income tax return.

TIP *The amount taxable to a beneficiary other than the estate is reduced by any qualified medical expenses for the decedent that are paid by the beneficiary within 1 year after the date of death.*

Filing Form 8889

You must file Form 8889 and file it with your Form 1040 if you (or your spouse, if married filing a joint return) had any activity in your HSA during the year. You must file the form even if only your employer or your spouse's employer made contributions to the HSA.

Employer Participation

This section contains the rules that employers must follow if they decide to make HSAs available to their employees. Unlike the previous discussions, "you" refers to the employer and not to the employee.

Health plan. If you want your employees to be able to have an HSA, they must have an HDHP. You can provide no additional coverage other than those exceptions listed previously under *Other health coverage.*

Contributions. You can make contributions to your employees' HSAs. You deduct the contributions on the "Employee benefit programs" line of your business income tax return for the year in which you make the contributions. If you are filing Form 1040, Schedule C, this is Part II, line 14.

Comparable contributions. If you decide to make contributions, you must make comparable contributions to all comparable participating employees' HSAs. Your contributions are comparable if they are either:

- The same amount, or
- The same percentage of the annual deductible limit under the HDHP covering the employees.

Comparable participating employees. Comparable participating employees:

- Are covered by your HDHP and are eligible to establish an HSA,
- Have the same category of coverage (either self-only or family coverage), and
- Have the same category of employment (either part-time or full-time).

The comparability rules do not apply to contributions made through a cafeteria plan.

Excise tax. If you made contributions to your employees' HSAs that were not comparable, you must pay an excise tax of 35% of the amount you contributed.

Employment taxes. Amounts you contribute to your employees' HSAs are generally not subject to employment taxes. You must report the contributions in box 12 of the Form W-2 you file for each employee during the calendar year. Enter code "W" in box 12.

Medical Savings Accounts (MSAs)

Archer MSAs were created to help self-employed individuals and employees of certain small employers meet the medical care costs of the account holder, the account holder's spouse, or the account holder's dependent(s).

A Medicare Advantage MSA is an Archer MSA designated by Medicare to be used solely to pay the qualified medical expenses of the account holder who is eligible for Medicare. No Medicare Advantage MSAs have been established as of the revision date of this publication.

Archer MSAs

An Archer MSA is a tax-exempt trust or custodial account that you set up with a U.S. financial institution (such as a bank or an insurance company) in which you can save money exclusively for future medical expenses.

What are the benefits of an Archer MSA? You may enjoy several benefits from having an Archer MSA.

- You can claim a tax deduction for contributions you make even if you do not itemize your deductions on Form 1040.
- The interest or other earnings on the assets in your Archer MSA are tax free.
- Distributions may be tax free if you pay qualified medical expenses. See *Qualified Medical Expenses,* later.
- The contributions remain in your Archer MSA from year to year until you use them.
- An Archer MSA is "portable" so it stays with you if you change employers or leave the work force.

Qualifying for an Archer MSA

To qualify for an Archer MSA, you must be either of the following.

- An employee (or the spouse of an employee) of a small employer (defined later) that maintains an individual or family HDHP for you (or your spouse).
- A self-employed person (or the spouse of a self-employed person) who maintains an individual or family HDHP.

You can have no other health or Medicare coverage except what is permitted under *Other health coverage,* later. You must be an eligible individual on the first day of a given month to get an Archer MSA deduction for that month.

CAUTION

If another taxpayer is entitled to claim an exemption for you, you cannot claim a deduction for an Archer MSA contribution. This is true even if the other person does not actually claim your exemption.

Small employer. A small employer is generally an employer who had an average of 50 or fewer employees during either of the last 2 calendar years. The definition of small employer is modified for new employers and growing employers.

Growing employer. A small employer may begin HDHPs and Archer MSAs for his or her employees and then grow beyond 50 employees. The employer will continue to meet the requirement for small employers if he or she:

- Had 50 or fewer employees when the Archer MSAs began,
- Made a contribution that was excludable or deductible as an Archer MSA for the last year he or she had 50 or fewer employees, and
- Had an average of 200 or fewer employees each year after 1996.

Changing employers. If you change employers, your Archer MSA moves with you. However, you may not make additional contributions unless you are otherwise eligible.

High deductible health plan (HDHP). To be eligible for an Archer MSA, you must have an HDHP. An HDHP has:

- A higher annual deductible than typical health plans, and
- A maximum limit on the annual out-of-pocket medical expenses that you must pay for covered expenses.

Limits. The following table shows the limits for annual deductibles and the maximum out-of-pocket expenses for high deductible health plans for 2004.

Type of coverage	Minimum annual deductible	Maximum annual deductible	Maximum annual out-of-pocket expenses
Self-only	$1,700	$2,600	$3,450
Family	$3,450	$5,150	$6,300

Family plans that do not meet the high deductible rules. There are some family plans that have deductibles for both the family as a whole and for individual family members. Under these plans, if you meet the individual deductible for one family member, you do not have to meet the higher annual deductible amount for the family. If either the deductible for the family as a whole or the deductible for an individual family member is below the minimum annual deductible for family coverage, the plan does not qualify as an HDHP.

Example. You have family health insurance coverage in 2004. The annual deductible for the family plan is $4,500. This plan also has an individual deductible of $2,000 for each family member. The plan does not qualify as an HDHP because the deductible for an individual family member is below the minimum annual deductible ($3,450) for family coverage.

Other health coverage. You (or your spouse if you file jointly) generally cannot have any other health coverage that is not an HDHP. However, you can have additional insurance that provides benefits only for the following items.

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

You can also have coverage (whether provided through insurance or otherwise) for the following items.

- Accidents.
- Disability.
- Dental care.
- Vision care.
- Long-term care.

Contributions to an MSA

Contributions to an Archer MSA must be made in cash. You cannot contribute stock or other property to an Archer MSA.

Who can contribute to my Archer MSA? If you are an employee, your employer may make contributions to your Archer MSA. (You do not pay tax on these contributions.) If your employer does not make contributions to your Archer MSA, or you are self-employed, you can make your own contributions to your Archer MSA. Both you and your employer cannot make contributions to your Archer MSA in the same year. You do not have to make contributions to your Archer MSA every year.

CAUTION *If your spouse is covered by your HDHP and an excludable amount is contributed by your spouse's employer to an Archer MSA belonging to your spouse, you cannot make contributions to your own Archer MSA that year.*

Limits

There are two limits on the amount you or your employer can contribute to your Archer MSA.

- The annual deductible limit.
- An income limit.

Annual deductible limit. You (or your employer) can contribute up to 75% of the annual deductible of your HDHP (65% if you have a self-only plan) to your Archer MSA. You must have the HDHP all year to contribute the full amount. If you do not qualify to contribute the full amount for the year, determine your annual deductible limit by using the worksheet for line 5 in the Form 8853 instructions.

Example 1. You have an HDHP for your family all year in 2004. The annual deductible is $4,000. You can contribute up to $3,000 ($4,000 × 75%) to your Archer MSA for the year.

Example 2. You have an HDHP for your family for the entire months of July through December, 2004 (6 months). The annual deductible is $4,000. You can contribute up to $1,500 ($4,000 × 75% for 6 months ÷ 12) to your Archer MSA for the year.

TIP *If you and your spouse each have a family plan, you are treated as having family coverage with the lower annual deductible of the two health plans. The contribution limit is split equally between you unless you agree on a different division.*

Income limit. You cannot contribute more than you earned for the year from the employer through whom you have your HDHP.

If you are self-employed, you cannot contribute more than your net self-employment income. This is your income from self-employment minus expenses (including the one-half of self-employment tax deduction).

Example 1. Bob Smith earned $25,000 from ABC Company in 2004. Through ABC, he had an HDHP for his family for the entire year. The annual deductible was $4,000. He can contribute up to $3,000 to his Archer MSA (75% × $4,000). He can contribute the full amount because he earned more than $3,000 at ABC.

Example 2. Joe Craft is self-employed. He had an HDHP for his family for the entire year in 2004. The annual deductible was $3,600. Based on the annual deductible, the maximum contribution to his Archer MSA would have been $2,700 (75% × $3,600). However, after deducting his business expenses, Joe's net self-employment income is $1,950 for the year. Therefore, he is limited to a contribution of $1,950.

Individuals enrolled in Medicare. Beginning with the first month you are enrolled in Medicare, you cannot contribute to an Archer MSA. However, you may be eligible for a Medicare Advantage MSA, discussed later.

When To Contribute

You can make contributions to your Archer MSA for 2004 until April 15, 2005.

Reporting Contributions on Your Return

Report all contributions to your Archer MSA on Form 8853 and file it with your Form 1040. You should include all contributions you, or your employer, made for 2004, including those made before April 15, 2005, that are designated for 2004.

You should receive Form 5498-SA, HSA, Archer MSA, or Medicare+Choice MSA Information, from the trustee showing the amount you (or your employer) contributed during the year. Your employer's contributions should be shown in box 12 of Form W-2, Wage and Tax Statement, with code R. Follow the instructions for Form 8853 and complete the worksheet for line 5. Report your Archer MSA deduction on Form 1040, line 35. Identify it as "MSA."

Excess contributions. You will have excess contributions if the contributions to your Archer MSA for the year are greater than the limits discussed earlier. Excess contributions are not deductible. Excess contributions made by your employer are included in your gross income. If the excess contribution is not included in box 1 of Form W-2, you must report the excess as "Other income " on your tax return.

Generally, you must pay a 6% excise tax on excess contributions. See Form 5329, Additional Taxes on Qualified Plans (including IRAs) and Other Tax-Favored Accounts, to figure the excise tax.

You may withdraw some or all of the excess contributions and not pay the excise tax on the amount withdrawn if you meet the following conditions.

- You withdraw the excess contributions by the due date, including extensions, of your tax return,
- You 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.

Distributions From an MSA

You will generally pay medical expenses during the year without being reimbursed by your HDHP until you reach the annual deductible for the plan. When you pay medical expenses during the year that are not reimbursed by your HDHP, you can ask the trustee of your Archer MSA to send you a distribution from your Archer MSA.

You can receive tax-free distributions from your Archer MSA to pay for qualified medical expenses (discussed later). If you receive distributions for other reasons, the amount will be subject to income tax and may be subject to an excise tax as well. You do not have to make withdrawals from your Archer MSA each year.

TIP *If you no longer qualify to make contributions, you can still receive tax-free distributions to pay or reimburse your qualified medical expenses.*

A distribution is money you get from your Archer MSA. The trustee will report any distribution to you and the IRS on Form 1099-SA, Distributions From an HSA, Archer MSA, or Medicare+Choice MSA.

Qualified medical expenses. Qualified medical expenses are those expenses that would generally qualify for the medical and dental expenses deduction. These are explained in Publication 502, Medical and Dental Expenses. Examples include amounts paid for doctors' fees, prescription and non-prescription medicines, and necessary hospital services not paid for by insurance. Qualified medical expenses are those incurred by you, your spouse, and your dependents.

CAUTION *You cannot deduct qualified medical expenses as an itemized deduction on Schedule A (Form 1040) that are equal to the tax-free distribution from your Archer MSA. This is the amount on line 9 of Form 8853.*

Special rules for insurance premiums. Generally, you cannot treat insurance premiums as qualified medical expenses for Archer MSAs. You can, however, treat premiums for long-term care coverage, health care coverage while you receive unemployment benefits, or health care continuation coverage required under any federal law as qualified medical expenses for Archer MSAs.

Health coverage tax credit. You cannot claim this credit for premiums that you pay with a tax-free distribution from your Archer MSA. See Publication 502 for information on this credit.

Deemed distributions from MSAs. The following situations result in deemed taxable distributions from your MSA.

- You engaged in any transaction prohibited by section 4975 with respect to any of your MSAs, at any time in 2004. Your account ceases to be an MSA as of January 1, 2004, and you must include the fair market value of all assets in the account as of January 1, 2004, on line 8a of Form 8853.
- You used any portion of any of your MSAs as security for a loan at any time in 2004. You must include the fair market value of the assets used as security for the loan as income on Form 1040, line 21.

RECORDS **Recordkeeping.** You must keep records sufficient to later show that:

- The distributions were exclusively to pay or reimburse qualified medical expenses,
- The qualified medical expenses had not been previously paid or reimbursed from another source, and
- The medical expenses had not been taken as an itemized deduction in any year.

Do not send these records with your tax return. Keep them with your tax records.

Reporting Distributions on Your Return

How you report your distributions depends on whether or not you use the distribution for qualified medical expenses (defined later).

- If you use a distribution from your Archer MSA for qualified medical expenses, you do not pay tax on the distribution but you have to report the distribution on Form 8853. Follow the instructions for the form and file it with your Form 1040.
- If you do not use a distribution from your Archer MSA for qualified medical expenses, you must pay tax on the distribution. Report the amount on Form 8853 and file it with your Form 1040. If you have a taxable Archer MSA distribution, include it in the total on Form 1040, line 21, and enter "MSA" and the amount on the dotted line next to line 21. You may have to pay an additional tax on your taxable distribution.

CAUTION

If an amount (other than a rollover) is contributed to your Archer MSA this year (by you or your employer), you also must report and pay tax on a distribution you receive from your Archer MSA this year that is used to pay medical expenses of someone who is not covered by an HDHP, or is also covered by another health plan that is not an HDHP, at the time the expenses are incurred. See the instructions for Form 8853 for more information.

Rollovers. Generally, any distribution from an Archer MSA that you roll over into another Archer MSA or an HSA is not taxable if you complete the rollover within 60 days. You can make only one rollover contribution to an Archer MSA during a 1-year period. See the instructions for From 8853 for more information.

Additional tax. There is a 15% additional tax on the part of your distributions not used for qualified medical expenses. Figure the tax on Form 8853 and file it with your Form 1040. Report the additional tax on Form 1040, line 62, and enter "MSA" and the amount on the dotted line next to line 62.

Exceptions. There is no additional tax on distributions made after the date you are disabled, reach age 65, or die.

Balance in an MSA

An MSA is generally exempt from tax. You are permitted to take a distribution from your Archer MSA at any time; however, only those amounts used exclusively to pay for qualified medical expenses are tax free. Amounts that remain at the end of the year are generally carried over to the next year (see *Excess contributions,* earlier). Earnings on amounts in an MSA are not included in your income while held in the MSA.

Death of the Archer MSA Holder

You should choose a beneficiary when you set up your Archer MSA. What happens to that Archer MSA when you die depends on whom you designate as the beneficiary.

Spouse is the designated beneficiary. If your spouse is the designated beneficiary of your Archer MSA, it will be treated as your spouse's Archer MSA after your death.

Spouse is not the designated beneficiary. If your spouse is not the designated beneficiary of your Archer MSA:

- The account stops being an Archer MSA, and
- The fair market value of the Archer MSA becomes taxable to the beneficiary in the year in which you die.

If your estate is the beneficiary, the fair market value of the Archer MSA will be included on your final income tax return.

TIP

The amount taxable to a beneficiary other than the estate is reduced by any qualified medical expenses for the decedent that are paid by the beneficiary within 1 year after the date of death.

Filing Form 8853

You must file Form 8853 with your Form 1040 if you (or your spouse, if married filing a joint return) had any activity in your Archer MSA during the year. You must file the form even if only your employer or your spouse's employer made contributions to the Archer MSA.

Employer Participation

This section contains the rules that employers must follow if they decide to make Archer MSAs available to their employees. Unlike the previous discussions, "you" refers to the employer and not to the employee.

Health plan. If you want your employees to be able to have an Archer MSA, you must make an HDHP available to them. You can provide no additional coverage other than those exceptions listed previously under *Other health coverage.*

Contributions. You can make contributions to your employees' Archer MSAs. You deduct the contributions on the "Employee benefit programs" line of your business income tax return for the year in which you make the contributions. If you are filing Form 1040, Schedule C, this is Part II, line 14.

Comparable contributions. If you decide to make contributions, you must make comparable contributions to all comparable participating employees' Archer MSAs. Your contributions are comparable if they are either:

- The same amount, or
- The same percentage of the annual deductible limit under the HDHP covering the employees.

Comparable participating employees. Comparable participating employees:

- Are covered by your HDHP and are eligible to establish an Archer MSA,
- Have the same category of coverage (either self-only or family coverage), and
- Have the same category of employment (either part-time or full-time).

Excise tax. If you made contributions to your employees' Archer MSAs that were not comparable, you must pay an excise tax of 35% of the amount you contributed.

Employment taxes. Amounts you contribute to your employees' Archer MSAs are generally not subject to employment taxes. You must report the contributions in box 12 of the Form W-2 you file for each employee during the calendar year. Enter code "R" in box 12.

Medicare Advantage MSAs

A Medicare Advantage MSA is an Archer MSA designated by Medicare to be used solely to pay the qualified medical expenses of the account holder. To be eligible for a Medicare Advantage MSA, you must be enrolled in Medicare and have a high deductible health plan (HDHP) that meets the Medicare guidelines.

A Medicare Advantage MSA is a tax-exempt trust or custodial savings account that you set up with a financial institution (such as a bank or an insurance company) in which the Medicare program can deposit money for qualified medical expenses. The money in your account is not taxed if it is used for qualified medical expenses, and it may earn interest or dividends.

An HDHP is a special health insurance policy that has a high deductible. You choose the policy you want to use as part of your Medicare Advantage MSA plan. However, the policy must be approved by the Medicare program.

Note. At the time this publication went to print, no HDHP had been approved by Medicare. Therefore, no Medicare Advantage MSAs have been established to date.

Medicare Advantage MSAs are administered through the Federal Medicare program. You can get information by calling 1-800-Medicare (1-800-633-4227) or through the Internet at *www.medicare.gov*.

Flexible Spending Arrangements (FSAs)

A health flexible spending arrangement (FSA) allows employees to be reimbursed for medical expenses. FSAs are usually funded through voluntary salary reduction agreements with your employer. No employment or federal income taxes are deducted from your contribution. The employer may also contribute.

For information on the interaction between a health FSA and an HSA, see *Other employee health plans* under *Qualifying for an HSA,* earlier.

What are the benefits of an FSA? You may enjoy several benefits from having an FSA.

- Contributions made by your employer can be excluded from your gross income.
- No employment or federal income taxes are deducted from the contributions.
- Withdrawals may be tax free if you pay qualified medical expenses. See *Qualified medical expenses,* later.
- You can withdraw funds from the account to pay qualified medical expenses even if you have not yet placed the funds in the account.

Qualifying for an FSA

Health FSAs are employer-established benefit plans. These may be offered in conjunction with other employer-provided benefits as part of a cafeteria plan. Employers have complete flexibility to offer various combinations of benefits in designing their plan. You do not have to be covered under any other health care plan to participate.

Self-employed persons are not eligible for an FSA.

CAUTION *Certain limitations may apply if you are a highly compensated participant or a key employee.*

Contributions to an FSA

You contribute to your FSA by electing an amount to be voluntarily withheld from your pay by your employer. This is sometimes called a salary reduction agreement. The employer may also contribute to your FSA if specified in the plan.

You do not pay federal income tax or employment taxes on the salary you contribute or the amounts your employer contributes to the FSA. However, contributions made by your employer to provide coverage for long-term care insurance must be included in income.

When To Contribute

At the beginning of the plan year, you must designate how much you want to contribute. Then, your employer will deduct amounts periodically (generally, every payday) in accordance with your annual election. You can change or revoke your election only if there is a change in your employment or family status that is specified by the plan.

Amount of Contribution

There is no limit on the amount of money you or your employer can contribute to the accounts; however, the plan must prescribe either a maximum dollar amount or maximum percentage of compensation that can be contributed to your health FSA.

Contributed amounts that are not spent by the end the plan year are forfeited. See *Balance in an FSA,* later. For this reason, it is important to base your contribution on an estimate of the qualifying expenses you will have during the year.

Distributions From an FSA

Distributions from a health FSA must be paid only to reimburse you for qualified medical expenses you incurred during the period of coverage. You must be able to receive the maximum amount of reimbursement (the amount you have elected to contribute for the year) at any time during the coverage period, regardless of the amount you have actually contributed. The maximum amount you can receive tax free is the total amount you elected to contribute to the health FSA for the year.

You must provide the health FSA with a written statement from an independent third party stating that the medical expense has been incurred and the amount of the expense. You must also provide a written statement that the expense has not been paid or reimbursed under any other health plan coverage. The FSA cannot make advance reimbursements of future or projected expenses.

Qualified medical expenses. Qualified medical expenses are those specified in the plan that would generally qualify for the medical and dental expenses deduction. These are explained in Publication 502, Medical and Dental Expenses. Examples include amounts paid for doctors' fees, prescription and non-prescription medicines, and necessary hospital services not paid for by insurance.

You cannot receive distributions from your FSA for the following expenses.

- Amounts paid for health insurance premiums.
- Amounts paid for long-term care coverage or expenses.
- Amounts that are covered under another health plan.

If you are covered under both a health FSA and an HRA, see Notice 2002-45, Part V, which is on page 93 of Internal Revenue Bulletin 2002-28 at *www.irs.gov/pub/irs-irbs/irb02–28.pdf*.

CAUTION *You cannot deduct qualified medical expenses as an itemized deduction on Schedule A (Form 1040) that are equal to the distribution you receive from the FSA.*

Balance in an FSA

Flexible spending accounts are "use-it-or-lose-it " plans. This means that amounts in the account at the end of the plan year cannot be carried over to the next year. Your employer is not permitted to refund any part of the balance to you.

Employer Participation

For the health FSA to maintain tax-qualified status, employers must comply with certain requirements that apply to cafeteria plans. For example, there are restrictions for plans that cover highly compensated employees and key employees. The plans must also comply with rules applicable to other accident and health plans. Chapters 1 and 2 of Publication 15-B, Employer's Tax Guide to Fringe Benefits, explain these requirements.

Health Reimbursement Arrangements (HRAs)

A health reimbursement arrangement (HRA) must be funded solely by an employer. The contribution cannot be paid through a voluntary salary reduction agreement on the part of an employee. Employees are reimbursed tax free for qualified medical expenses up to a maximum dollar amount for a coverage period. An HRA may be offered with other health plans, including FSAs.

For information on the interaction between an HRA and an HSA, see *Other employee health plans* under *Qualifying for an HSA,* earlier.

What are the benefits of an HRA? You may enjoy several benefits from having an HRA.

- Contributions made by your employer can be excluded from your gross income.
- Reimbursements may be tax free if you pay qualified medical expenses. See *Qualified medical expenses,* later.
- Any unused amounts in the HRA can be carried forward for reimbursements in later years.

Qualifying for an HRA

HRAs are employer-established benefit plans. These may be offered in conjunction with other employer-provided health benefits. Employers have complete flexibility to offer various combinations of benefits in designing their plan. You do not have to be covered under any other health care plan to participate.

Self-employed persons are not eligible for an HRA.

CAUTION *Certain limitations may apply if you are a highly compensated participant.*

Contributions to an HRA

HRAs are funded solely through employer contributions and may not be funded through employee salary deferrals under a cafeteria plan. These contributions are not included in the employee's income. You do not pay federal income taxes or employment taxes on amounts your employer contributes to the HRA.

Amount of Contribution

There is no limit on the amount of money your employer can contribute to the accounts. Additionally, the maximum reimbursement amount credited under the HRA in the future may be increased or decreased by amounts not previously used. See *Balance in an HRA,* later.

Distributions From an HRA

Distributions from an HRA must be paid to reimburse you for qualified medical expenses you have incurred. The expense must have been incurred on or after the date you are enrolled in the HRA. If any distribution is, or can be, made for other than the reimbursement of qualified medical expenses, any distribution (including reimbursement of qualified medical expenses) made in the current tax year is included in gross income.

Reimbursements under an HRA can be made to the following persons.

- Current and former employees.
- Spouses and dependents of those employees.
- Spouses and dependents of deceased employees.

Qualified medical expenses. Qualified medical expenses are those specified in the plan that would generally qualify for the medical and dental expenses deduction. These are explained in Publication 502, Medical and Dental Expenses. Examples include amounts paid for doctors' fees, prescription and non-prescription medicines, and necessary hospital services not paid for by insurance.

Qualified medical expenses from your HRA include the following.

- Amounts paid for health insurance premiums.
- Amounts paid for long-term care coverage.
- Amounts that are not covered under another health plan.

If you are covered under both an HRA and a health FSA, see Notice 2002-45, Part V, which is on page 93 of Internal Revenue Bulletin 2002-28 at *www.irs.gov/pub/irs-irbs/irb02–28.pdf*

CAUTION *You cannot deduct qualified medical expenses as an itemized deduction on Schedule A (Form 1040) that are equal to the distribution from the HRA.*

Balance in an HRA

Amounts that remain at the end of the year can generally be carried over to the next year. Your employer is not permitted to refund any part of the balance to you. These amounts may never be used for anything but reimbursements for qualified medical expenses.

Employer Participation

For an HRA to maintain tax-qualified status, employers must comply with certain requirements that apply to other accident and health plans. Chapters 1 and 2 of Publication 15-B, Employer's Tax Guide to Fringe Benefits, explain these requirements.

How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Contacting your Taxpayer Advocate. If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

The Taxpayer Advocate independently represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not been fixed through normal channels. While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate toll free at 1-877-777-4778.
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call 1-800-829-4059 if you are a TTY/TDD user.
- Visit *www.irs.gov/advocate*.

For more information, see Publication 1546, The Taxpayer Advocate Service of the IRS—How To Get Help With Unresolved Tax Problems.

Free tax services. To find out what services are available, get Publication 910, IRS Guide to Free Tax Services. It contains a list of free tax publications and an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.

Internet. You can access the IRS website 24 hours a day, 7 days a week, at *www.irs.gov* to:

- *E-file* your return. Find out about commercial tax preparation and *e-file* services available free to eligible taxpayers.
- Check the status of your 2004 refund. Click on *Where's My Refund*. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2004 tax return available because you will need to know your filing status and the exact whole dollar amount of your refund.
- Download forms, instructions, and publications.
- Order IRS products online.
- Research your tax questions online.
- Search publications online by topic or keyword.
- View Internal Revenue Bulletins (IRBs) published in the last few years.
- Figure your withholding allowances using our Form W-4 calculator.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.

Fax. You can get over 100 of the most requested forms and instructions 24 hours a day, 7 days a week, by fax. Just call 703-368-9694 from the telephone connected to your fax machine. When you call, you will hear instructions on how to use the service. The items you request will be faxed to you.

For help with transmission problems, call 703-487-4608.

Long-distance charges may apply.

Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call 1-800-829-3676 to order current-year forms, instructions, and publications and prior-year forms and instructions. You should receive your order within 10 days.
- *Asking tax questions.* Call the IRS with your tax questions at 1-800-829-1040.
- *Solving problems.* You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to *www.irs.gov/localcontacts* or look in the phone book under *United States Government, Internal Revenue Service*.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call 1-800-829-4059 to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call 1-800-829-4477 and press 2 to listen to pre-recorded messages covering various tax topics.
- *Refund information.* If you would like to check the status of your 2004 refund, call 1-800-829-4477 and press 1 for automated refund information or call 1-800-829-1954. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2004 tax return available because you will need to know your filing status and the exact whole dollar amount of your refund.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to sometimes listen in on or record telephone calls. Another is to ask some callers to complete a short survey at the end of the call.

Walk-in. Many products and services are available on a walk-in basis.

- *Products.* You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD-ROM or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.
- *Services.* You can walk in to your local Taxpayer Assistance Center every business day to ask tax questions or get help with a tax problem. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. You can set up an appointment by calling your local Center and, at the prompt, leaving a message requesting Everyday Tax Solutions help. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. To find the number, go to *www.irs.gov/localcontacts* or look in the phone book under *United States Government, Internal Revenue Service*.

Mail. You can send your order for forms, instructions, and publications to the Distribution Center nearest to you and receive a response within 10 business days after your request is received. Use the address that applies to your part of the country.

- **Western part of U.S.:**
  Western Area Distribution Center
  Rancho Cordova, CA 95743-0001
- **Central part of U.S.:**
  Central Area Distribution Center
  P.O. Box 8903
  Bloomington, IL 61702-8903
- **Eastern part of U.S. and foreign addresses:**
  Eastern Area Distribution Center
  P.O. Box 85074
  Richmond, VA 23261-5074

CD-ROM for tax products. You can order Publication 1796, IRS Federal Tax Products CD-ROM, and obtain:

- Current-year forms, instructions, and publications.
- Prior-year forms and instructions.
- Frequently requested tax forms that may be filled in electronically, printed out for submission, or saved for recordkeeping.
- Internal Revenue Bulletins.

Buy the CD-ROM from National Technical Information Service (NTIS) at *www.irs.gov/cdorders* for $22 (no handling fee) or call 1-877-233-6767 toll free to buy the CD-ROM for $22 (plus a $5 handling fee). The first release is available in early January and the final release is available in late February.

CD-ROM for small businesses. Publication 3207, The Small Business Resource Guide, CD-ROM 2004, is a must for every small business owner or any taxpayer about to start a business. This handy, interactive CD contains all the business tax forms, instructions, and publications needed to successfully manage a business. In addition, the CD provides other helpful information, such as how to prepare a business plan, finding financing for your business, and much more. The design of the CD makes finding information easy and quick and incorporates file formats and browsers that can be run on virtually any desktop or laptop computer.

It is available in early April. You can get a free copy by calling 1-800-829-3676 or by visiting *www.irs.gov/smallbiz*.

Index

To help us develop a more useful index, please let us know if you have ideas for index entries. See “Comments and Suggestions” in the “Introduction” for the ways you can reach us.

■

Tax Publications for Individual Taxpayers

See *How To Get Tax Help* for a variety of ways to get publications, including by computer, phone, and mail.

General Guides

1 Your Rights as a Taxpayer
17 Your Federal Income Tax (For Individuals)
334 Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)
509 Tax Calendars for 2005
553 Highlights of 2004 Tax Changes
910 IRS Guide to Free Tax Services

Specialized Publications

3 Armed Forces' Tax Guide
54 Tax Guide for U.S. Citizens and Residents Aliens Abroad
225 Farmer's Tax Guide
378 Fuel Tax Credits and Refunds
463 Travel, Entertainment, Gift, and Car Expenses
501 Exemptions, Standard Deduction, and Filing Information
502 Medical and Dental Expenses (Including the Health Coverage Tax Credit)
503 Child and Dependent Care Expenses
504 Divorced or Separated Individuals
505 Tax Withholding and Estimated Tax
514 Foreign Tax Credit for Individuals
516 U.S. Government Civilian Employees Stationed Abroad
517 Social Security and Other Information for Members of the Clergy and Religious Workers
519 U.S. Tax Guide for Aliens
521 Moving Expenses
523 Selling Your Home
524 Credit for the Elderly or the Disabled
525 Taxable and Nontaxable Income
526 Charitable Contributions
527 Residential Rental Property
529 Miscellaneous Deductions
530 Tax Information for First-Time Homeowners
531 Reporting Tip Income
533 Self-Employment Tax
536 Net Operating Losses (NOLs) for Individuals, Estates, and Trusts
537 Installment Sales
541 Partnerships
544 Sales and Other Dispositions of Assets
547 Casualties, Disasters, and Thefts
550 Investment Income and Expenses
551 Basis of Assets
552 Recordkeeping for Individuals
554 Older Americans' Tax Guide
555 Community Property
556 Examination of Returns, Appeal Rights, and Claims for Refund
559 Survivors, Executors, and Administrators
561 Determining the Value of Donated Property
564 Mutual Fund Distributions
570 Tax Guide for Individuals With Income From U.S. Possessions
571 Tax-Sheltered Annuity Plans (403(b) Plans)
575 Pension and Annuity Income
584 Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)
587 Business Use of Your Home (Including Use by Daycare Providers)
590 Individual Retirement Arrangements (IRAs)
593 Tax Highlights for U.S. Citizens and Residents Going Abroad
594 What You Should Know About the IRS Collection Process
595 Tax Highlights for Commercial Fishermen
596 Earned Income Credit (EIC)
721 Tax Guide to U.S. Civil Service Retirement Benefits
901 U.S. Tax Treaties
907 Tax Highlights for Persons with Disabilities
908 Bankruptcy Tax Guide
911 Direct Sellers
915 Social Security and Equivalent Railroad Retirement Benefits
919 How Do I Adjust My Tax Withholding?
925 Passive Activity and At-Risk Rules
926 Household Employer's Tax Guide
929 Tax Rules for Children and Dependents
936 Home Mortgage Interest Deduction
946 How To Depreciate Property
947 Practice Before the IRS and Power of Attorney
950 Introduction to Estate and Gift Taxes
967 The IRS Will Figure Your Tax
968 Tax Benefits for Adoption
969 Health Savings Accounts and Other Tax-Favored Health Plans
970 Tax Benefits for Education
971 Innocent Spouse Relief
972 Child Tax Credit
1542 Per Diem Rates
1544 Reporting Cash Payments of Over $10,000 (Received in a Trade or Business)
1546 The Taxpayer Advocate Service—How to Get Help With Unresolved Problems

Spanish Language Publications

1SP Derechos del Contribuyente
579SP Cómo Preparar la Declaración de Impuesto Federal
594SP Comprendiendo el Proceso de Cobro
596SP Crédito por Ingreso del Trabajo
850 English-Spanish Glossary of Words and Phrases Used in Publications Issued by the Internal Revenue Service
1544SP Informe de Pagos en Efectivo en Exceso de $10,000 (Recibidos en una Ocupación o Negocio)

Commonly Used Tax Forms

See *How To Get Tax Help* for a variety of ways to get forms, including by computer, fax, phone, and mail. For fax orders only, use the catalog number when ordering.

Form Number and Title		Catalog Number
1040	U.S. Individual Income Tax Return	11320
Sch A&B	Itemized Deductions & Interest and Ordinary Dividends	11330
Sch C	Profit or Loss From Business	11334
Sch C-EZ	Net Profit From Business	14374
Sch D	Capital Gains and Losses	11338
Sch D-1	Continuation Sheet for Schedule D	10424
Sch E	Supplemental Income and Loss	11344
Sch EIC	Earned Income Credit	13339
Sch F	Profit or Loss From Farming	11346
Sch H	Household Employment Taxes	12187
Sch J	Farm Income Averaging	25513
Sch R	Credit for the Elderly or the Disabled	11359
Sch SE	Self-Employment Tax	11358
1040A	U.S. Individual Income Tax Return	11327
Sch 1	Interest and Ordinary Dividends for Form 1040A Filers	12075
Sch 2	Child and Dependent Care Expenses for Form 1040A Filers	10749
Sch 3	Credit for the Elderly or the Disabled for Form 1040A Filers	12064
1040EZ	Income Tax Return for Single and Joint Filers With No Dependents	11329
1040-ES	Estimated Tax for Individuals	11340
1040X	Amended U.S. Individual Income Tax Return	11360

Form Number and Title		Catalog Number
2106	Employee Business Expenses	11700
2106-EZ	Unreimbursed Employee Business Expenses	20604
2210	Underpayment of Estimated Tax by Individuals, Estates, and Trusts	11744
2441	Child and Dependent Care Expenses	11862
2848	Power of Attorney and Declaration of Representative	11980
3903	Moving Expenses	12490
4562	Depreciation and Amortization	12906
4868	Application for Automatic Extension of Time To File U.S. Individual Income Tax Return	13141
4952	Investment Interest Expense Deduction	13177
5329	Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts	13329
6251	Alternative Minimum Tax—Individuals	13600
8283	Noncash Charitable Contributions	62299
8582	Passive Activity Loss Limitations	63704
8606	Nondeductible IRAs	63966
8812	Additional Child Tax Credit	10644
8822	Change of Address	12081
8829	Expenses for Business Use of Your Home	13232
8863	Education Credits	25379
9465	Installment Agreement Request	14842