PacificCPE

COURSE

31901A

Health Savings Accounts and Medical Tax Basics

Get up to speed on the tax treatment of medical expenses and the health care savings vehicles your clients rely on most. This course covers foundational concepts, the tax implications of medical expenses, and a thorough look at Health Savings Accounts — including contribution limits for both self-only and family coverage. Whether you're new to this area or need a solid refresher, this course gives you the grounding needed to advise clients with confidence on HSA eligibility, contributions, and tax benefits.

CREDIT HOURS 2 | FIELD OF STUDY TAXES | EXAM QUESTIONS 10

Start Course ↓

Final Exam Copy ↓

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Identify features of various health plans designed to provide relief from rising health costs.
-

Recognize some of the requirements for tax deductibility of medical expenses.

- Recall the rates related to a health savings account.

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Publication Date: March 2026

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Chapter 1: INTRODUCTION

Chapter Objective

After completing this chapter, you should be able to:

- Identify features of various health plans designed to provide relief from rising health costs.

WHAT'S NEW

Telehealth and other remote care services. Public Law 119-21, July 4, 2025, amended Code section 223 to provide that:

1. A Health Savings Account (HSA) eligible individual may have disregarded coverage (besides the high deductible health plan (HDHP)) for telehealth and other remote care, and
2. A plan will not fail to be treated as an HDHP by reason of failing to have a deductible for telehealth and other remote care services.

The amendments apply to plan years beginning after 2024.

Health Flexible Spending Arrangement (FSA) contribution and carryover for 2025. Revenue Procedure 2024-40, October 22, 2024, provides that for tax years beginning in 2025, the dollar limitation under section 125(i) on voluntary employee salary reductions for contributions to Health Flexible Spending Arrangements is $3,300. If the cafeteria plan permits the carryover of unused amounts, the maximum carryover amount is $660.

REMINDERS

Preventive care for purposes of qualifying as an HDHP under section 223. Notice 2024-75, October 28, 2024, expands the list of preventive care benefits permitted to be provided by an HDHP without a deductible or with a deductible below the applicable minimum deductible for the HDHP, to include over-the-counter oral contraceptives (including emergency contraceptives) and male condoms. Notice 2024-75 also clarifies that (1) all types of breast cancer screening for individuals who have not been diagnosed with breast cancer are treated as preventive care, (2) continuous glucose monitors for individuals diagnosed with diabetes are generally treated as preventive care, and (3) the safe harbor for absence of a deductible for certain insulin products applies without regard to whether the insulin product is prescribed to treat an individual diagnosed with diabetes or prescribed for the purpose of preventing the exacerbation of diabetes or the development of a secondary condition.

Expenses treated as amounts paid for medical care. Notice 2024-71, October 28, 2024, provides a safe harbor under section 213 of the Internal Revenue Code for amounts paid for condoms. The

Treasury Department and the IRS will treat amounts paid for condoms as amounts paid for medical care under section 213(d). Because amounts paid for condoms are treated as expenses for medical care under section 213(d), if the other requirements of section 213(a) are met (for example, if a taxpayer's total medical expenses exceed the 7.5% adjusted gross income limitation and are not compensated for by insurance or otherwise), then amounts paid by the taxpayer for condoms for the taxpayer, the taxpayer's spouse, or the taxpayer's dependent are deductible as expenses for medical care under section 213. Additionally, because amounts paid for condoms are treated as expenses for medical care under section 213(d), the amounts are also eligible to be paid or reimbursed under a health Flexible Spending Arrangement (FSA), Archer Medical Savings Account (MSA), Health Reimbursement Arrangement (HRA), or HSA. However, if an amount paid for condoms is paid or reimbursed under a health FSA, Archer MSA, HRA, HSA, or any other health plan or otherwise, it is not a deductible expense under section 213.

Expenses related to COVID-19 and preventive care for purposes of HDHPs. Notice 2023-37, June 23, 2023, addresses the announced end of the COVID-19 public health emergency and the National Emergency Concerning the Novel Coronavirus Disease 2019 Pandemic on May 11, 2023; it modifies prior guidance regarding benefits relating to testing for and treatment of COVID-19 that can be provided by a health plan that otherwise satisfies the requirements to be an HDHP under section 223(c)(2)(A) of the Internal Revenue Code (Code). Specifically, the relief described in Notice 2020-15, 2020-14 I.R.B 559, applies only with respect to plan years ending on or before December 31, 2024.

Notice 2023-37 also clarifies whether certain items and services are treated as preventive care under section 223(c)(2)(C). Specifically, the preventive care safe harbor as described in Notice 2004-23, 2004-15 I.R.B 725, does not include screening (for example, testing) for COVID-19, effective as of July 24, 2023.

Notice 2023-37 also provides that items and services recommended with an "A" or "B" rating by the United States Preventive Services Task Force on or after March 23, 2010, are treated as preventive care for purposes of section 223(c)(2)(C), regardless of whether these items and services must be covered, without cost sharing, under Public Health Service Act section 2713.

Insulin products. Public Law 117-169, August 16, 2022, amended section 223 to provide that an HDHP may have a $0 deductible for selected insulin products. The amendment applies to plan years beginning after 2022.

Surprise billing for emergency services or air ambulance services. Public Law 116-260, December 27, 2020, amended section 223 to provide that an HDHP may provide benefits under federal and state anti-"surprise billing" laws with a $0 deductible. Also, an "eligible individual" remains eligible to make contributions to its HSA even if the individual receives anti-"surprise billing" benefits outside of the HDHP. The amendment applies to plan years beginning after 2021.

Note

Anti-"surprise billing" laws generally protect individuals from "surprise billing" for items like emergency medical services, some non-emergency medical services, and air ambulance services.

OVERVIEW

Various programs are designed to give individuals tax advantages to offset health care costs. 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 employer contributions, are deductible on the eligible individual's return whether or not the individual itemizes deductions. Employer contributions aren't included in income. Distributions from an HSA that are used to pay qualified medical expenses aren't taxed. An Archer MSA may receive contributions from an eligible individual and the eligible individual's employer, but not both in the same year. Contributions by the individual are deductible whether or not the individual itemizes deductions. Employer contributions aren't included in income. Distributions from an Archer MSA that are used to pay qualified medical expenses aren't 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 enrolled in Medicare. Contributions can be made only by Medicare. The contributions aren't included in your income. Distributions from a Medicare Advantage MSA that are used to pay qualified medical expenses aren't taxed.

A health FSA may receive contributions from an eligible individual. Employers may also contribute. Contributions aren't includible in income. Reimbursements from an FSA taxed. An HRA must receive contributions from the employer only. Employees may not contribute. Contributions aren't includible in income. Reimbursements from an HRA that are used to pay qualified medical expenses aren't taxed.

Health Savings Accounts (HSAs)

An HSA is a tax-exempt trust or custodial account you set up with a qualified HSA trustee to pay or reimburse certain medical expenses you incur. You must be an eligible individual to contribute to an HSA.

No permission or authorization from the IRS is necessary to establish an HSA. You set up an HSA 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.

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 don't itemize your deductions on Schedule A (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 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.
- An HSA is "portable." It stays with you if you change employers or leave the work force.

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).

Note

After 2007, you can't be treated as an eligible individual for Archer MSA purposes unless:

1. You were an active participant for any tax year ending before 2008, or
2. You became an active participant for a tax year ending after 2007 by reason of coverage under a high deductible health plan (HDHP) of an Archer MSA participating employer.

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.

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. The benefits of an Archer MSA include the following:

- You can claim a tax deduction for contributions you make even if you don't itemize your deductions on Schedule A (Form 1040) or Schedule A (Form 1040-NR). However, you may not claim a deduction if you are a dependent of another taxpayer.
- 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.
- The contributions remain in your Archer MSA until you use them.
- An Archer MSA is "portable," so it stays with you if you change employers or leave the work force.

Flexible Spending Arrangements (FSAs)

A health FSA allows employees to be reimbursed for medical expenses. FSAs are usually funded through voluntary salary reduction agreements with your employer. The employer may also contribute. The benefits of a flexible spending arrangement include the following:

- Contributions made by your employer can be excluded from your gross income.
- No employment or federal income taxes are deducted from the contributions.
- Reimbursements may be tax free if you pay qualified medical expenses.
- You can use an FSA to pay qualified medical expenses even if funds have not yet been credited to the arrangement.

Health Reimbursement Arrangements (HRAs)

An HRA must be funded solely by an employer. The contribution can't 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.

The benefits of a health reimbursement arrangement include the following:

- Contributions made by your employer can be excluded from your gross income.
- Reimbursements, which must be for qualified medical expenses, are tax free.
- Any unused amounts in the HRA can be carried forward for reimbursements in later years.

Chapter 1: TEST YOUR KNOWLEDGE

The following questions are designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). They are included as an additional tool to enhance your learning experience and do not need to be submitted in order to receive CPE credit.

We recommend that you answer each question and then compare your response to the suggested solutions on the following page(s) before answering the final exam questions related to this chapter (assignment).

1. **Starting in plan years after 2024, an individual can remain eligible for a Health Savings Account (HSA) even if they have additional coverage specifically for telehealth and remote care.**

   A. true

   B. false

2. **For tax years beginning in 2025, what is the maximum limit for voluntary employee salary reductions to a Health Flexible Spending Arrangement (FSA):**

   A. $125

   B. $660

   C. $2,000

   D. $3,300