PacificCPE

COURSE
31902A

MSAs, FSAs, and Health Reimbursement Arrangements

Rounding out the health care savings picture, this course dives into three additional account types professionals need to understand: Medical Savings Accounts, Flexible Spending Arrangements, and Health Reimbursement Arrangements. Each plan type has distinct rules, contribution limits, and tax implications that affect both employers and individual clients. If you work with small business owners, self-employed individuals, or employee benefit plans, understanding the differences between these arrangements is essential for providing accurate, practical guidance and helping clients maximize their tax advantages.

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

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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

- Recognize the features of an Archer MSA.
- Recall the features of a flexible spending arrangement.
- Recall the features of a health reimbursement arrangement.

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Chapter 1: MEDICAL SAVINGS ACCOUNTS

Chapter Objective

After completing this chapter, you should be able to:

- Recognize the features of an Archer MSA.

INTRODUCTION

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).

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 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.

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 a self-only or family HDHP for you (or your spouse).
- A self-employed person (or the spouse of a self-employed person) who maintains a self-only 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.

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.

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

- 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 the employer 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 to contribute to an Archer MSA, you must be covered under 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 HDHPs for 2025.

	Self-only Coverage	Family Coverage
Minimum annual deductible	$2,850	$5,700
Maximum annual deductible	$4,300	$8,550
Maximum annual out-of-pocket expenses	$5,700	$10,500

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 don't 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 less than the minimum annual deductible for family coverage, the plan doesn't qualify as an HDHP.

Other health coverage. If you (and your spouse, if you have family coverage) have HDHP coverage, you can't generally have any other health coverage. However, you can still be an eligible individual even if your spouse has non-HDHP coverage, provided you aren't covered by that plan. However, you can have additional insurance that provides benefits only for the following items.

- Liabilities incurred under 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.

Who can contribute to my Archer MSA? You can contribute except if:

1. Your employer contributes; or
2. Your spouse is covered by your HDHP and your spouse's employer contributes to your spouse's Archer MSA.

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 don't qualify to contribute the full amount for the year, determine your annual deductible limit by using the Line 3 Limitation Chart and Worksheet in the Instructions for Form 8853, *Archer MSAs and Long-Term Care Insurance Contracts*. 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 the two of you unless you agree on a different division.

Income limit. You can't contribute more than you earned for the year from the employer through whom you have your HDHP. If you are self-employed, you can't contribute more than your net self-employment income. This is your income from self-employment minus expenses (including the deductible part of self-employment tax).

Individuals enrolled in Medicare. Beginning with the first month you are enrolled in Medicare, you can't 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 2025 through April 15, 2026.

Reporting Contributions

Report all contributions to your Archer MSA on Form 8853 and file it with your Form 1040, 1040-SR, or 1040-NR. You should include all contributions you or your employer made for 2025, including those made from January 1, 2026, through April 15, 2026, that are designated for 2025.

You should receive Form 5498-SA, *HSA, Archer MSA, or Medicare Advantage MSA Information,* from the trustee showing the amount you or your employer contributed during the year. Your employer's contributions should be shown on Form W-2, box 12, code R. Follow the Instructions for Form 8853 and complete the Line 3 Limitation Chart and Worksheet in the instructions. Report your Archer MSA deduction on Form 1040, 1040-SR, or 1040-NR.

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 aren't deductible. Excess contributions made by your employer are included in your gross income. If the excess contribution isn't included in Form W-2, box 1, 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. The excise tax applies to each tax year the excess contribution remains in the account. You may withdraw some or all of the excess contributions and avoid paying 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.

Deducting an excess contribution in a later year. You may be able to deduct excess contributions for previous years that are still in your Archer MSA. The excess contribution you can deduct in the current year is the lesser of the following two amounts.

- Your maximum Archer MSA contribution limit for the year minus any amounts contributed to your Archer MSA for the year.
- The total excess contributions in your Archer MSA at the beginning of the year.

Any excess contributions remaining at the end of a tax year are subject to the excise tax.

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 aren't 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 additional 20% tax as well. You don't 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 Advantage MSA*.

Qualified medical expenses. In general, "qualified medical expenses" means amounts paid by the MSA holder for "medical care" (as defined in Code section 213(d)) for the individual, the spouse of the individual, and any dependent of the individual, but only to the extent the amounts are not compensated for by insurance or otherwise. Amounts paid for menstrual care products are treated as paid for medical care.

Qualified medical expenses include those incurred by the following persons.

1. You and your spouse.
2. All dependents you claim on your tax return.
3. Any person you could have claimed as a dependent on your return except that:

a) The person filed a joint return;

b) The person had gross income equal to or more than the exemption amount; or

c) You, or your spouse if filing jointly, could be claimed as a dependent on someone else's 2025 return.

Tip

For this purpose, a child of parents that are divorced, separated, or living apart for the last 6 months of the calendar year is treated as the dependent of both parents whether or not the custodial parent releases the claim to the child's exemption.

Caution!

You can't 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.

Special rules for insurance premiums. Generally, you can't 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.

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

- You engaged in any transaction prohibited by section 4975 with respect to any of your Archer MSAs at any time in 2025. Your account ceases to be an Archer MSA as of January 1, 2025, and you must include the fair market value of all assets in the account as of January 1, 2025, on Form 8853.
- You used any portion of any of your Archer MSAs as security for a loan at any time in 2025. You must include the fair market value of the assets used as security for the loan as income on Form 1040, 1040-SR, or 1040-NR.

Examples of prohibited transactions include the direct or indirect:

- Sale, exchange, or leasing of property between you and the Archer MSA;
- Lending of money between you and the Archer MSA;
- Furnishing goods, services, or facilities between you and the Archer MSA; and
- Transfer to or use by you, or for your benefit, of any assets of the Archer MSA. Any deemed distribution won't be treated as used to pay qualified medical expenses. These