The tax benefits of an HSA

HSAs enjoy triple-tax savings[1] and are one of the most tax-favored accounts in America

Health Savings Accounts (HSAs) offer three key tax benefits. It's important to remember that you must be in an HSA-qualified health plan to open and contribute to an HSA. With an HSA, you'll enjoy:

- Tax-free contributions to your HSA[1]
- Tax-free earnings from interest and investments[2] in your HSA
- Tax-free payments from your HSA for qualified medical expenses

$	**Contributions**	**Tax-free**
$$	**Interest** **Investment earnings**	
$$$	**Qualified medical expenses**	

The first and largest tax advantage is that annual contributions to an HSA are not subject to federal income tax — so you save based on your federal tax rate. For example, if you contribute $1,000 and are at the 25% federal tax rate, you have $1,000 to spend on qualified medical expenses, and not $750 — the amount you'd have left after paying your federal tax.[3] Even if you plan on spending the money you contribute to your HSA, by placing those funds in your HSA first, and then spending them, you will enjoy the tax savings and your money will go further.

Maximize your tax savings and the amount you have to spend on medical expenses

	Without HSA	With HSA
Income	$1,000	$1,000
HSA contribution	$0	$1,000
25% federal income tax[1]	-$250	$0
Funds left to pay for qualified medical expenses	$750	$1,000

State income taxes are also waived on HSA contributions in almost all states, with the exception of California, New Jersey, and Alabama. Depending on your state income tax rate, this advantage could save you up to an additional 8% on taxes in states with a state income tax.

In addition to tax-free contributions, interest and investment earnings grow tax-free — which could save you thousands more in taxes.[4] And when you pay for qualified medical expenses out of your HSA, that money you withdraw from your account to pay for these expenses is not taxed either.[1] You can also pay for the qualified expenses for your spouse or any tax dependent, even if they are not on your health plan.

What are qualified medical expenses?

Qualified medical expenses are payments made for "medical care" as defined under federal law.[5] The broad range of expenses generally includes:

- Doctors, hospitals, and prescription drugs
- Dental and vision (excluding cosmetic procedures)
- Chiropractic and acupuncture
- Laboratory fees
- And many more

For a more detailed explanation and list of qualified medical expenses, visit wellsfargo.com/hsaqualifiedexpenses.

HSA excise tax

It's important to remember that HSAs can only be used for qualified medical expenses. If you use your HSA for expenses other than those that are qualified, you will be subject to a 20% excise tax on the amount you spend, in addition to any income tax you haven't paid on the funds. In certain cases the excise tax doesn't apply — such as once you reach age 65, or in case of death or disability.

You should always save your itemized receipts for the qualified medical expenses you pay from your HSA. Keep them filed in a safe place in case you need them in the future.

Contributions to HSAs — when you see the tax benefit

If your employer offers pre-tax HSA contributions through payroll, you can enjoy immediate tax benefits on your contributions by making them through your employer — the simplest way to get funds into your account. If you make direct contributions into your HSA outside of payroll, you can take an HSA deduction on your federal and state[1] income tax returns each year.

Making contributions through your employer's payroll can provide added tax benefits — HSA contributions are not subject to the Federal Insurance Contributions Act (FICA) and the Federal Unemployment Tax Act (FUTA) taxes, which amounts to a typical savings of 7.65% (subject to limits of the Social Security Wage Base).

Maximize your tax savings

To get the most potential tax savings in your HSA, maximize your annual contribution[6] and make your contributions through your employer (if available). This chart gives you an idea of how much you can save if you have individual or family insurance coverage in 2014 and make the maximum contribution allowed by law. Note that savings depend on your tax bracket and other factors.

2015 tax savings potential[3]

Tax type	Individual maximum HSA contribution $3,350	Family maximum HSA contribution $6,650	Family maximum HSA contribution plus $1,000 annual catch-up contribution (for age 55+) $7,650
Federal taxes (25%)	$838	$1,663	$1,913
State taxes[7] (5%)	$168	$333	$383
FICA and FUTA (7.65%)[8]	$256	$509	$585
Total potential savings	$1,262	$2,505	$2,881

Complement your retirement strategy with an HSA

With their triple-tax benefits, HSAs offer many advantages as a retirement savings account and can be a great complement to your existing retirement strategy. When HSA funds are used for qualified medical expenses in retirement, there is no tax on withdrawals. In comparison, 401(k) and IRA withdrawals are typically taxed as income in retirement — so your retirement savings may work harder for you in an HSA when spending money on qualified medical expenses.

You may also get additional benefits today while contributing to your HSA. For instance, contributions to an HSA made through pre-tax payroll deductions are not subject to FICA and FUTA taxes. Contributions to 401(k) plans are typically subject to such taxes.

Using HSAs in retirement — tax-free

There are many medical costs to plan for in retirement — from long-term care to Medicare premiums. During retirement, funds in an HSA are a great way to pay for these expenses tax-free.

- Qualified medical, prescription, dental, and vision expenses
- Long-term care premiums[9]
- Medicare premiums and out-of-pocket expenses
- Medicare Part A deductible
- Medicare Part B premiums and co-insurance
- Medicare Part D prescription drug premiums and co-insurance

Use HSA funds for ordinary expenses in retirement and pay only income tax

Another big benefit to retirees at age 65 is funds in HSAs are no longer subject to the 20% excise tax penalty if they are used to pay for non-qualified medical expenses. If you are age 65 or older, your HSA funds can be used for everyday spending and are only taxed at your income tax rate, which is typically lower in retirement[1] than when you are working.

What federal tax forms are associated with HSAs?

There are four primary federal tax forms for HSAs. Wells Fargo supplies two of them annually; the third is part of your tax return, and the fourth is supplied by your employer (if you make HSA contributions through your employer).

Form	Timing	Purpose	Where do you get the form?
1099-SA	End of January	Reflects all distributions from your HSA for the previous tax year.	Wells Fargo provides this form to you and the IRS. Find out more at wellsfargo.com/hsataxcenter.
5498-SA	End of May	Shows your total prior-year contributions, which can be made up until the federal tax filing deadline (typically April 15).	Wells Fargo provides this form to you and the IRS. Find out more at wellsfargo.com/hsataxcenter.
8889	Federal tax filing deadline (typically April 15)	Worksheet used to calculate tax savings for your contributions. Also used to report distributions from your HSA in the previous tax year.	Your tax advisor or download from the IRS at http://www.irs.gov/instructions/i8889/index.html.
W2	January	Box 12W shows total contributions made to your HSA through your employer – both your own pre-tax contributions and any your employer makes on your behalf. You will need this amount to complete Form 8889.	From your employer, through mail or online.

Get started with an HSA today

HSAs are a great way to reduce your total tax liability, save for future medical expenses, and pay for qualified medical expenses tax-free. If you don't have an HSA but are in an HSA-qualified health plan and meet the eligibility requirements, you can open an account online at wellsfargo.com/hsa. If you have questions, contact Wells Fargo HSA Customer Service at 1-866-884-7374 or consult your tax advisor.

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[1] Accountholders should consult a tax advisor. Tax references are at the federal level. State taxes may vary. California, New Jersey, and Alabama don't allow income tax deductions for HSA contributions.

[2] INVESTMENT PRODUCTS ARE • NOT FDIC INSURED • HAVE NO BANK GUARANTEE • MAY LOSE VALUE

[3] Example is for illustrative purposes only. Individual situations may differ.

[4] For example, if you invest $2,500 annually in your HSA for 20 years, with a 5% average rate of return, you could save $10,303 in taxes on your investment earnings.

[5] Qualified medical expenses are those defined under Section 213(d) of the Internal Revenue Code.

[6] If you do not meet HSA eligibility requirements for the full tax year, you may not be able to contribute the maximum amount. Please consult your tax advisor or employer for more information.

[7] Except NJ, CA, and AL or states that don't have state income tax.

[8] Only available if contributions are made through your employer's cafeteria plan and payroll deductions. Subject to the limits of the Social Security Wage Base.

[9] Subject to Code Section 213 deduction limits for long-term care insurance premiums.