

COMPLIANCE OVERVIEW



Key HSA Features—2023 Compliance

Health savings accounts (HSAs) are a popular type of tax-advantaged medical savings account available to individuals enrolled in high deductible health plans (HDHPs). Individuals can use their HSAs to pay for expenses covered under the HDHP until their deductible has been met, or they can use their HSAs to pay for qualified medical expenses that are not covered under the HDHP, such as dental or vision expenses.

HSAs provide a triple tax advantage—contributions, interest and earnings, and amounts distributed for qualified medical expenses are all exempt from federal income tax, Social Security/Medicare tax and most state income taxes. Due to an HSA's potential tax savings, federal tax law includes strict rules for HSAs, including limits on annual contributions and HDHP cost sharing.

This Compliance Overview summarizes key features for HSAs, including the contribution limits for 2023.

LINKS AND RESOURCES

- [IRS Publication 969](#), Health Savings Accounts and Other Tax-favored Health Plans.
- [IRS Rev. Proc. 2022-24](#), which includes the inflation-adjusted HSA limits for 2023.
- COVID-19 Guidance: [IRS Notice 2020-15](#), the [CARES Act](#) and the [FFCRA](#).

Annual Limits

- The 2023 contribution limit is \$3,850 for individuals with self-only HDHP coverage and \$7,750 for individuals with family HDHP coverage.
- Individuals who are age 55 or older may make an additional \$1,000 "catch-up" contribution.
- For 2023 plan years, the minimum deductible is \$1,500 for self-only HDHP coverage and \$3,000 for family HDHP coverage.

Changes for COVID-19

In response to the COVID-19 crisis:

- Over-the-counter drugs and menstrual care products are qualified medical expenses that can be paid for by an HSA on a tax-free basis.
- HDHPs may pay for certain benefits, including COVID-19 testing and treatment and telehealth services, before the deductible is reached.

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HSA Key Features

| Overview | |
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| Account Description | Tax-exempt trust or custodial account established by an eligible individual to pay for qualified medical expenses. |
| Changes Related to COVID-19 Pandemic | <p>The following changes related to the COVID-19 global pandemic impact HSAs:</p> <ul style="list-style-type: none"> Effective Jan. 1, 2020, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) provides that over-the-counter (OTC) medicines and drugs are qualified medical expenses that may be paid for by an HSA on a tax-free basis, regardless of whether the medicine or drug is prescribed. In addition, menstrual care products are qualifying medical expenses that may be paid for on a tax-free basis by an HSA. IRS Announcement 2021-7 provides that HSAs can reimburse personal protective equipment (PPE), such as masks, hand sanitizer and sanitizing wipes, used for the primary purpose of preventing the spread of COVID-19, effective for expenses incurred on or after Jan. 1, 2020. Effective March 18, 2020, the Families First Coronavirus Response Act (FFCRA) requires group health plans and health insurance issuers to cover COVID-19 testing without imposing any cost sharing (such as deductibles, copayments or coinsurance) or prior authorization or other medical management requirements. IRS Notice 2020-15 confirms that HDHPs can pay for COVID-19 testing and treatment before plan deductibles have been met, without jeopardizing their status as HSA-compatible. |
| Annual Reminders for 2023 | New annual limits on contributions apply. Also, the minimum deductible and maximum out-of-pocket expense limit for HDHPs increases for plan years beginning on or after Jan. 1, 2023. The catch-up contribution amounts for HDHPs remain the same. |
| Potential Tax Benefits for Employees | <ul style="list-style-type: none"> Employee contributions are either tax-deductible or pre-tax (if made by salary reduction). Employer contributions are excluded from gross income and are generally not subject to employment taxes. Interest or earnings on amounts in an HSA are not includable in gross income while held in the HSA. Tax-free distributions to pay for qualified medical expenses. |
| Employee Eligibility | |
| Who May Participate | <p>An individual is eligible to establish and contribute to an HSA if he or she:</p> <ul style="list-style-type: none"> Is covered under an HDHP; Is not covered by any other health plan that is not an HDHP (including coverage in a general-purpose health FSA solely as a result of unused carry-over amounts from the prior year), except for certain limited types of coverage; Is not enrolled in Medicare; and May not be claimed as a dependent on another person's income tax return. |