Health Savings Account (HSA)

Frequently Asked Business Questions

Q. As an employer, can I control how employees spend the money in their HSA?
A. No. The employee fully owns the contributions to the account as soon as they are deposited, just as with a personal checking or savings account to which you would deposit their payroll check.

Q. My employees want to contribute to their HSAs. What are the tax benefits for them?
A. Employee contributions can be made to HSAs on either an after-tax or pre-tax basis. If made on an after-tax basis they can be counted as an above-the-line deduction on their income tax return, making their contributions tax-free whether or not they itemize deductions. If they want to make the contribution pre-tax it can be done through a Section 125 plan (also called a salary reduction or cafeteria plan).

Q. My employees want to make pre-tax contributions to their HSAs. Does this require any additional set up?
A. Yes, pre-tax contributions can be made by both employees and employers to HSAs through a qualified Section 125 plan (also called a salary reduction or cafeteria plan.)

Q. Are there tax advantages when I contribute to my employees' HSAs?
A. Yes, you can deduct your contribution as a business operating expense.

Q. How much do I have to contribute to my employees' HSAs?
A. As much or as little as you want within the legal limit of $3,100* for employees with single coverage to $6,250* for employees with family coverage, annually.
*These amounts are for 2012. They are indexed annually for inflation.

Q. Do HSA contributions have to be made in equal amounts each month?
A. No, you and your employees can contribute in a lump sum or in any amount or frequency you wish. There are limitations to the amount employers can contribute.

Q. Do employees forfeit unused funds in their HSA at the end of the year?
A. No, all unused contributions made by the employee and the employer will roll over to the following year. These funds can be withdrawn to pay for qualified medical expenses at any time. At the age of 65, however, the money can be withdrawn for any reason.

Q. As an employer, do I have to contribute the same amount to every employee's HSA?
A. Yes, but there are a few special exceptions. Please seek advice from a competent Retirement Account Attorney or Labor Attorney for exceptions. If contributions are done incorrectly, no deductions are granted and a 35% penalty will apply.

Q. Our company offers benefits through a Section 125 plan. Do contributions have to meet comparability rules under these plans?
A. Section 125 plans (also known as salary reduction or cafeteria plans) require the employer to ensure that contributions do not favor higher compensated employees. Under these rules, contributions (both from employer and/or employee) must meet non-discrimination rules.

Q. Our company wants to offer matching contributions to our employees' HSAs. Can we do that?
A. Yes, but matching contributions must be made through a Section 125 plan.

Q. We don't offer health insurance at our company, but some of our employees have opened HSAs. Can we still make contributions to their HSAs?
A. Your company can make pre-tax contributions to your employees' HSAs as long as you do so for all eligible employees.

Q. Can a self-employed person contribute to an HSA on a pre-tax basis?
A. No. Self-employed persons cannot contribute to an HSA on a pre-tax basis and cannot take the amount of their HSA contribution as a deduction for SECA purposes. However, they can contribute to an HSA with after-tax dollars and take the above-the-line deduction on their income taxes.

Q. Can owners and shareholders of S Corps make contributions to an HSA on a pre-tax basis?
A. Owners and officers with greater than 2% share of a Subchapter S corporation cannot make pre-tax contributions to their HSAs through the company by salary reduction. However, they can make personal contributions to their HSAs and take the above-the-line deduction on their income taxes.

Q. Can partners in a partnership or limited liability company (LLC) make contributions to an HSA on a pre-tax basis?
A. Partners in a partnership or LLC cannot make pre-tax contributions to their HSAs through the partnership by salary reduction. However, they can make personal contributions to their HSAs and take the above-the-line deduction on their income taxes.