



The Vita Viewpoint Important Information for Decision Makers

Imputed Income for Domestic Partner Coverage

Overview

When a company offers a high-deductible health plan (HDHP) and makes contributions to the HSAs of employees who have elected the HDHP coverage, there are specific reporting requirements that must be followed. Employees must take specific steps to report both contributions and distributions on their federal tax returns.

Filing Requirements in a Nutshell

Your employees who have HSAs must file a Form 8889 (Health Savings Accounts (HSAs)), as an attachment to Form 1040, for any year in which they make or receive HSA contributions (including employer contributions) or for any year in which they take an HSA distribution. Married individuals filing jointly must attach a Form 8889 for each spouse who has an HSA. Form 8889 must be attached to Form 1040; thus, anyone who is required to file a Form 8889 cannot file a Form 1040-A or Form 1040-EZ.

In completing the necessary forms, individuals are required to provide information about their HDHP coverage, their HSA contribution limit, the amount of HSA contributions that were made by them or on their behalf, and the amount of any taxable or nontaxable distributions taken from their HSAs.

As an employer, you are responsible for reporting the HSA contributions that you make to employees' HSAs in Box 12 of Form W-2 (using Code W). In addition to the Form W-2, your employees with HSAs should have received a Form 5498-SA from their HSA trustee or custodian that reports the total contributions made to their HSAs during the year and the fair market value of their HSAs at year-end. If they have taken any distributions, they should also have received a Form 1099-SA on which their HSA trustee or custodian has reported the total amount of distributions made during the year.

Communication to Employees

You may wish to consider telling your employees about these reporting requirements. You can refer employees with HSAs to IRS Forms 1040 and 8889, and the instructions published by the IRS for each of those forms. However, cautious employers will provide only general information, not tax advice. Thus, employees should be told to consult with their tax advisors if they have additional questions about their reporting obligations. Lastly, it is important to note that state tax treatment of HSA contributions vary. In California, the legislature has not yet passed conforming tax legislation, therefore, HSA contributions are NOT considered deductible. From the employer's perspective, contributions to an employee's HSA account must be imputed to the employee as income for California state income tax purposes (but not federal).

For questions or additional information, please contact Vita Benefits Group at (650) 968-8811.