

What you should know about qualified medical expenses for Health Savings Accounts

If you have a Health Savings Account (HSA) it's important for you to understand what a qualified medical expense is and how it relates to your account.

Background:

A Health Savings Account (HSA) is a tax-advantaged savings account combined with a High Deductible Health Plan. You can use your HSA to help meet your deductible by paying for medical expenses covered by your health plan. Some expenses may not be covered by your health insurance plan but can still be paid for using your HSA. The IRS considers these "qualified medical expenses" and are defined in Section 213(d) of the Internal Revenue Code.

What is a qualified medical expense?

- They're expenses that include amounts paid for the diagnosis, treatment or prevention of disease, and for treatments that affect any part or function of the body.
- The expenses must be used to prevent or relieve a physical defect or illness.
- They're expenses that would generally qualify for the medical and dental expenses deduction under tax advantaged accounts.
- HSA funds spent on non-qualified expense will be considered part of your taxable income. You will also owe a 20% penalty on that amount.

Whose expenses can be reimbursed?

The money in the HSA can be used to pay for qualified medical and/or dental expenses spent by the employee, spouse or a dependent for whom an exemption is claimed under Section 152 of the tax code. Expenses that occurred before

you established your HSA are not qualified medical expenses. Only expenses made after you open your HSA are qualified medical and/or dental expenses.

Be sure to keep complete records to show that:

- The money in the HSA was used only to pay for or reimburse qualified medical and/or dental expenses
- The qualified medical and/or dental expenses had not been previously paid for or reimbursed from another source
- The medical and/or dental expenses had not been taken as an itemized deduction in any year

Over-the-Counter (OTC) items impacted by health care law

Effective January 1, 2011 you will no longer be able to use funds from an HSA to purchase some OTC items that had been covered in the past. Please see the chart below for more detail.

Eligible over-the-counter items		
<ul style="list-style-type: none"> • Band aids • Birth control • Braces and supports 	<ul style="list-style-type: none"> • Contact lens solution and supplies • Elastic bandages and wraps 	<ul style="list-style-type: none"> • First aid supplies • Reading glasses
Ineligible over-the-counter medications (unless accompanied by a prescription)		
<ul style="list-style-type: none"> • Acid controllers • Acne medication • Allergy and sinus • Antibiotics • Anti-itch and insect bite 	<ul style="list-style-type: none"> • Cough, cold and flu medicine • Eye drops • Indigestion • Laxatives • Motion sickness • Nasal sprays 	<ul style="list-style-type: none"> • Ointments and creams • Pain relief • Respiratory treatments • Sleep aids and sedatives • Stomach remedies

Qualified medical expenses for Health Savings Accounts

Below are two charts that give examples of medical expenses that are eligible (do qualify) and are not eligible (do not qualify) for reimbursement. Please know that this is only a partial list and is not complete. The list is subject to change based on regulations, revenue rulings and case law. The list should be used only as a general guideline for covered expenses. All items on the list may be subject to further restrictions.

Eligible medical expenses		
<ul style="list-style-type: none"> • Abortion • Acupuncture • Alcoholism treatment • Ambulance • Anesthetist • Artificial limbs • Autoette (when used for relief of sickness or disability) • Birth control pills (by prescription) • Blood tests • Blood transfusions • Breast Reconstruction Surgery (following a mastectomy for cancer) • Cardiographs • Chiropractor • Christian Science practitioner • Contact lenses • Contraceptive devices (by prescription) • Crutches • Dental treatment 	<ul style="list-style-type: none"> • Dental X-rays • Dentures • Dermatologist • Diagnostic fees • Diagnostic Devices (used in diagnosing and treating illness and disease) • Drug addiction therapy • Drugs (prescription) • Eyeglasses • Fees paid to health institute prescribed by a doctor • Fertility Enhancement (procedures to overcome an inability to have children) • Hearing Aids • Guide dog • Gum treatment • Psychoanalysis • Psychologist 	<ul style="list-style-type: none"> • Psychotherapy • Radium therapy • Registered nurse • Special school costs for the handicapped • Spinal fluid test • Splints • Sterilization • Surgeon • Telephone or TV equipment to assist the hard-of-hearing • Therapy equipment • Transportation expenses (relative to health care) • Ultraviolet ray treatment • Vaccines • Vasectomy • Vitamins (if prescribed) • Wheelchair • X-rays
Ineligible medical expenses		
<ul style="list-style-type: none"> • Advance payment for services to be rendered next year • Athletic club membership • Automobile insurance premium allocable to medical coverage • Boarding school fees • Bottled water • Commuting expenses of a disabled person • Cosmetic surgery and procedures • Cosmetics, hygiene products and similar items 	<ul style="list-style-type: none"> • Funeral, cremation or burial expenses • Health programs offered by resort hotels, health clubs and gyms • Illegal operations and treatments • Illegally procured drugs • Maternity clothes • Non-prescription medication • Over-the-counter drugs • Premiums for life insurance, income protection, disability, loss of limbs, sight or similar benefits • Scientology counseling 	<ul style="list-style-type: none"> • Social activities • Special foods and beverages • Specially designed car for the handicapped other than an Autoette or special equipment • Swimming pool • Travel for general health improvement • Tuition and travel expenses to send a problem child to a particular school • Weight-loss programs

For more detailed information:

- Please refer to the publication put out by the IRS titled "Medical and Dental Expenses"; number 502, catalog number 15002Q.
- You can order a copy of the publication by calling 800-TAX-FORM (800-829-3676).
- Or you can view it online at www.irs.gov/pub/irs-pdf/p502.pdf.

For tax advice, please contact a tax professional.

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