Qualifying distributions from your health savings account (HSA)

When paired with a qualified high-deductible health plan, HSAs can provide a great triple tax\(^1\) advantage. This means you can:

1. Contribute pre-tax deductions from your paycheck or make post-tax contributions and deduct them on your individual Form 1040.
2. Grow your HSA funds with both interest and potential investment\(^2\) gains.
3. Use your HSA to pay eligible healthcare expenses for you and your qualifying tax dependents.

Qualifying tax dependents include:

1. Your spouse
2. All dependents you claim on your tax return
3. Any person you could have claimed as a dependent on your return, except that:
   a. The person filed a joint return,
   b. The person had gross income of $4,050 or more, or
   c. You, or your spouse if filing jointly, could be claimed as a dependent on someone else’s return

Healthcare expenses incurred before you establish your HSA are not eligible to be paid with HSA funds. The establishment date of your HSA is determined by state law. However, an HSA funded by money rolled over from an Archer MSA or another HSA custodian is considered to be established on the date the prior account was opened. Otherwise, typically only expenses incurred after your HSA is opened are qualifying medical expenses.

Your adult children may be covered under the Advantage+ health plan until age 26. However, you may not report those children as dependents on your tax return. If your child does not meet the IRS requirements for reporting on your tax return, HSA distributions associated with that child may be subject to excise tax and ordinary income tax.\(^3\)

If you discover your child is not qualified and have made distributions for their healthcare expenses, contact HealthEquity at 877.873.9377. They are available 24/7 to assist you. While they cannot provide tax advice, they can explain your options for repaying those funds to your HSA.

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\(^1\) HSAs are never taxed at a federal income tax level when used appropriately for qualified medical expenses. Also, most states recognize HSA funds as tax-free with very few exceptions. Please consult a tax advisor regarding your state’s specific rules.

\(^2\) Investments are subject to risk, including the possible loss of the principal invested, and are not FDIC or NCUA insured, or guaranteed by HealthEquity, Inc. Investing through the HealthEquity investment platform is subject to the terms and conditions of the Health Savings Account Custodial Agreement and any applicable investment supplement. Investing may not be suitable for everyone and before making any investments, review the fund’s prospectus.

\(^3\) It is the members’ responsibility to ensure eligibility requirements as well as if they are eligible for the expenses submitted. HealthEquity does not provide legal, tax or financial advice. Always consult a professional when making life changing decisions.