



# HEALTH SAVINGS ACCOUNTS

## How are Health Savings Accounts affected by PPACA?

Health care reform affects purchases of most over-the-counter drugs—they now require a prescription for reimbursement. Flexible spending accounts and health reimbursement arrangements, which cover 213(d) expenses and health savings accounts are all affected.

Unlike flexible spending account debit cards, eligible expenses purchased with your health savings account debit card will not be verified at the register. To avoid incurring the Internal Revenue Service Health Savings Account Distribution Tax Penalty it's important to understand which expenses are covered.

While the new law applies to health savings accounts, people are responsible to use health savings accounts debit cards properly. Unlike flexible spending account debit cards, eligible expenses purchased with a health savings account debit card will not be verified at the register. Therefore, it is important individuals understand the new rules to avoid building up tax penalties.

### **Can you cover dependent expenses?**

As part of health care reform, the PPACA does not allow you to cover eligible dependent expenses with health savings accounts when the dependent is not listed on your federal income tax return.

If your adult child dependent does not qualify as a tax dependent, any health savings accounts payments for that dependent's expenses would be taxed under the Internal Revenue Service Health Savings Account Distribution Tax Penalty. However, your adult dependent child may open their own health savings accounts and contribute up to your medical plan's allowable family maximum.

People with health savings accounts must keep their prescriptions and receipts and submit them for reimbursement. Individuals should always keep a copy of these documents. If the Internal Revenue Service audits a tax return, it requires copies of all the prescriptions and receipts related to health savings accounts.

### **Are penalties increasing?**

Yes. Health care reform increased the tax penalty on health savings account payments that are not used for eligible expenses from 10 percent to 20 percent of the payment amounts beginning in 2011.

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