

Health Savings Accounts (HSA) Talking Points

- It is estimated that there will be 25-30 million individuals covered by Health Savings Accounts in 2010. That compares to less than 500,000 in 2004. The growth in these health savings accounts requires oversight.
- HSAs have substantial advantages not enjoyed by Flexible Spending Accounts for health purposes; yet, they have less accountability. HSA amounts can be disbursed at the request of the account holder for any use. In 2007, millions of dollars were withdrawn from HSAs for non-healthcare purposes such as escort services, gambling, and country club memberships.
- The provision is effective for amounts distributed in 2011 so account holders and trustees have time to prepare.
- This provision does not change the very favorable tax treatment of HSAs but improves the reporting requirements for these accounts to ensure that, if you take money out for a purpose that is not qualified, you report that amount as income and pay the excise tax.
- The Congress continues to express outrage at the amount of unreported and unpaid taxes in our \$345 billion tax gap and search for solutions. The Administration has stated that "compliance increases greatly for payments that a third party reports to the IRS." This proposal will reduce the tax gap— by just \$60 million in the first year alone.
- The provision will not burden low-income taxpayers, because they generally do not have HSAs. HSAs are not attractive to these families because of the high deductibles and limited tax benefits.
- HSAs are funded with tax-deductible contributions, receive tax-free interest, and can be used without tax for qualified expenses. An HSA account holder is ultimately responsible for determining if a disbursement from an account is a qualified medical expense and not included in income and subject to the 10% penalty.
- Without a change to HSA information reporting, the only way to verify that what is reported is through audit by the IRS, which differs from substantiation rules applied to other health savings vehicles.