

2007



Department of the Treasury
Internal Revenue Service

Instructions for Forms 1099-SA and 5498-SA

(Revised March 2007)

Section references are to the Internal Revenue Code unless otherwise noted.

What's New

The Tax Relief and Health Care Act of 2006 added new options for funding health savings accounts (HSAs). Section 302 of the Act provides for direct transfers from flexible spending arrangements (FSAs) and health reimbursement arrangements (HRAs) to HSAs as rollover contributions. Section 307 of the Act provides for trustee-to-trustee transfers from IRAs to HSAs. These transfers are treated as current year contributions. Under the *Specific Instructions for Form 5498-SA* on page SA-2, see the instructions for box 2 for the contribution of funds from IRAs and the instructions for box 4 for the rollover of funds from FSAs and HRAs.

Reminder

In addition to these specific instructions, you should also use the 2007 General Instructions for Forms 1099, 1098, 5498, and W-2G. Those general instructions include information about:

- Backup withholding
- Electronic reporting requirements
- Penalties
- Who must file (nominee/middleman)
- When and where to file
- Taxpayer identification numbers
- Statements to recipients
- Corrected and void returns
- Other general topics

You can get the general instructions from the IRS website at www.irs.gov or by calling 1-800-TAX-FORM (1-800-829-3676).

Specific Instructions for Form 1099-SA

File Form 1099-SA, Distributions From an HSA, Archer MSA, or Medicare Advantage MSA, to report distributions made from an HSA, Archer MSA, or Medicare Advantage MSA (MA MSA). The distribution may have been paid directly to a medical service provider or to the account holder. A separate return must be filed for each plan type.

Transfers. Do not report a trustee-to-trustee transfer from one Archer MSA or MA MSA to another Archer MSA or MA MSA, one Archer MSA to an HSA, or from one HSA to another HSA. For reporting purposes, contributions and rollovers do not include transfers.

HSA mistaken distributions. If amounts were distributed during the year from an HSA because of a mistake of fact due to reasonable cause, the account beneficiary may repay the mistaken distribution no later than April 15 following the first year the account beneficiary knew or should have known the distribution was a mistake. For example, the account beneficiary reasonably, but mistakenly, believed that an expense was a qualified medical expense and was reimbursed for that expense from the HSA. The account beneficiary then repays the mistaken distribution to the HSA.

Under these circumstances, the distribution is not included in gross income, is not subject to the 10 percent additional tax, and the payment is not subject to the excise tax on excess contributions. Do not treat the repayment as a contribution on Form 5498-SA.



TIP As the trustee or custodian, you do not have to allow beneficiaries to return a mistaken distribution to the HSA. However, if you do allow the return of the mistaken contribution, you may rely on the account beneficiary's statement that the distribution was in fact a

mistake. See Notice 2004-50, Q/A 76 which is on page 196 of Internal Revenue Bulletin 2004-33 available at www.irs.gov/pub/irs-irbs/irb04-33.pdf. Do not report the mistaken distribution on Form 1099-SA. Correct any filed Form 1099-SA with the IRS and the account beneficiary as soon as you become aware of the error. See Corrected Returns on Paper Forms in the 2007 General Instructions for Forms 1099, 1098, 5498, and W-2G for more information.

Death of Account Holder

Archer MSAs and MA MSAs. If the account holder dies and the beneficiary is the spouse:

- The spouse becomes the account holder of the Archer MSA,
- The spouse may continue an MA MSA, but no new contributions may be made to the account, and
- Distributions from an Archer MSA or MA MSA are taxed under the rules that apply to Archer MSAs, not MA MSAs.

If the beneficiary is not the spouse or there is no named beneficiary, the account ceases to be an Archer MSA or MA MSA and the fair market value (FMV) is reported.

Distribution in year of death. If you learn of the account holder's death and make a final distribution to the beneficiary in the year of death, issue a final Form 1099-SA and enter in:

- Box 1, the gross distribution;
- Box 3, code 4 (see page SA-2); and
- Box 4, the FMV of the account on the date of death.

If the beneficiary is the estate, enter the estate's name and taxpayer identification number (TIN) in place of the recipient's on the form.

Distribution after year of death. If you learn of the death of the account holder and make a final distribution after the year of death, issue a final Form 1099-SA in the year you learned of the death of the account holder. Enter in:

- Box 1, the gross distribution;
- Box 3, one of the following codes (see page SA-2):
 - 1—if the beneficiary is the spouse,
 - 4—if the beneficiary is the estate, or
 - 6—if the beneficiary is not the spouse or estate;
- Box 4, the FMV of the account on the date of death.

HSAs. If the account holder dies and:

- The named beneficiary is the surviving spouse, the surviving spouse becomes the account holder of the HSA.
- If the HSA passes to a person other than the surviving spouse, the HSA ceases to be an HSA on the date of the account holder's death. If there is no designated beneficiary, or the account passes to the account holder's estate, the FMV of the account as of the date of death is required to be reported in box 4. Follow the rules and coding above under *Distribution in year of death* and *Distribution after year of death*.

Statements to Recipients

If you are required to file Form 1099-SA, you must provide a statement to the recipient. For more information about the requirement to furnish a Form 1099-SA or acceptable substitute statement to recipients, see part M in the 2007 General Instructions for Forms 1099, 1098, 5498, and W-2G.

Account Number

The account number is required if you have multiple accounts for a recipient for whom you are filing more than one Form 1099-SA. Additionally, the IRS encourages you to designate an account number for all Forms 1099-SA that you file. See part L in the 2007 General Instructions for Forms 1099, 1098, 5498, and W-2G.