

Sample article for organizations to use to reach customers and/or taxpayers

Customize and provide the following article to alert your customers about changes for healthcare savings programs

Pay attention to changes for healthcare savings programs

The Affordable Care Act of 2010 made some changes to healthcare programs offered by employers. If you participate in any of these programs, here's what you should know that could impact your 2011 funds and your planning for 2012.

A healthcare savings program, offered by your employer, allows you to set aside money from your paycheck into an account that you can use for medical expenses. Certain healthcare savings programs provide income tax advantages. They include:

- Health Savings Accounts (HSAs)
- Archer Medical Savings Accounts (Archer MSAs)
- Health Flexible Spending Arrangements (FSAs)
- Health Reimbursement Arrangements (HRAs)

Qualified Medical Expenses

Beginning Jan. 1, 2011, over-the-counter drugs, like nonprescription pain relievers, are reimbursable through healthcare savings programs **only** if the OTC drugs are prescribed..

For HSA, MSA, FSA and HRA purposes, a medicine or drug will be a qualified medical expense only if the medicine or drug:

- requires a prescription;
- is available without a prescription (an OTC medicine or drug) and you get a prescription for it; or
- is insulin.

The change does not affect other health care expenses such as medical devices, eyeglasses, contact lenses, co-pays and deductibles.

The IRS [issued an announcement](#) stating that money spent on breast pumps and other devices to assist lactation can qualify as deductible medical expenses. This update now means that FSA, HSA and HRA funds can now be used to pay for these items.

Additional Tax on Non-Qualified Medical Expenses

Beginning Jan. 1, 2011, the additional tax for distributions from HSAs for non-qualified medical expenses increased from 10 to 20 percent and from 15 to 20 percent for Archer MSAs.

If you have an HSA or an Archer MSA, distributions after Dec.31, 2010, for expenses that are not qualifying medical expenses, including OTC medicines and drugs purchased without a prescription, will be included in your gross income and subject to an additional tax of 20 percent.

The income tax and additional tax for distributions not used for qualified medical expenses are reported on Form 8889 for an HSA distribution and on Form 8853 for an Archer MSA distribution. You must complete these forms and attach them to your Form 1040 when you file your 2011 income tax return in 2012. Distributions from an HSA or an Archer MSA are not included as taxable wages and do not affect your Form W-2.

NOTE TO EDITOR: Below are links to additional resources for your readers.

- [IRS Issues Guidance Explaining 2011 Changes to Flexible Spending Arrangements](#)
- [Pub. 4884 Flyer - Health Plan Changes](#)
- [Questions and Answers on Over-the-Counter Medicines and Drugs](#)
- [Pub 502, Medical and Dental Expenses](#)
- [Publication 969, Health Savings Accounts and Other Tax-favored Health Plans](#)
- [Lactation Expenses as Medical Expenses](#)
- [Affordable Care Act Tax Provisions](#)