

HSA Q&A for Individual Buyers

What is a Health Savings Account and how can it help me?

Health Savings Accounts are accounts set up by banking or similar institutions to hold contributions from employees or employers that may be used to pay for medical or related expenses. Some of the important selling points to having an HSA include the following:

- Contributions go in on a tax exempt basis and come out on a tax-free basis to pay for eligible medical expenses, COBRA premiums, Medicare premiums such as Parts A, B, and D, as well as Long Term Care insurance premiums. (If the money is withdrawn for other reasons, the withdrawn amount would be deemed taxable income, and a **20%** additional penalty would apply for federal income tax if withdrawn prior to age 65 if withdrawn in **2011 or later**.) Note: if the member qualifies for state or federal unemployment insurance benefits, other medical insurance premiums may be paid by the plan on a tax free basis, as well.
- The HSA is owned by the employee, so it is portable and can be taken away by an employee who terminates employment.
- The money may be left in the account to accumulate over time, and depending on the HSA there may be alternate investment options within the HSA, including mutual funds.
- Employees who may have reached the maximum contributions on a retirement plan may still make tax deductible contributions into an HSA.
- Unlike a cafeteria plan flexible spending account, the HSA does not have a “use it or lose it” rule, so any money not used would simply remain in the account from year to year.
- Unlike a flex plan, employers and plan sponsors are not required to substantiate to an administrator that the withdrawals are for legitimate medical expenses.

The HSA may only be set up if the covered individual is insured only by a High Deductible Health Plan (HDHP), which means a plan with an individual deductible which is not less than **\$1,200 (in 2011 and 2012)** and a family deductible (for two or more covered members) which is not less than twice that individual deductible minimum. In an HSA compatible plan, the maximum out of pocket limit for a PPO provider (if the plan is a PPO, otherwise any provider) is **\$5,950 (in 2011)** and **\$6,050 (in 2012)** for individual and **\$11,900 (in 2011)** and **\$12,100 (in 2012)** for family coverage.

Some of the important points to note in such HDHP coverage are as follow:

- The health plan may not provide any benefit below the deductible other than for preventive care. Thus, such common practices as office visit copays and prescription drug card copays are not allowed under an HSA-compatible health plan. (Note: there are some possible technical exceptions to this in some states and for those who have stand alone prescription coverage, but these possible exceptions are only for the time period prior to 2006. Some prescriptions for preventive care may be purchased without the deductible being applied.)
- In the case of PPOs, the above applies to the in-network part of the plan. Out-of-network benefits may be less than what is shown above.
- When two or more family members are covered together under the HSA-compatible health plan, the family deductible **usually (but not always)** takes over and no individual deductible applies. For example, if a family had a family deductible for \$4,000, no benefits (other than for preventive care) would apply until \$4,000 in family coverage charges had been incurred during the year, whether all from one individual or spread out among family members. (Note: this is the most common HDHP plan design. The family deductible in this case is called an “umbrella deductible.” Another alternative is to have what are called “embedded deductibles,” which means that each insured would have his or her own individual deductible, which is the way traditional health insurance has worked. However, in such an example, the individual deductible times the number of covered family members may not exceed the family deductible maximum.)
- The HSA separate account may pay for eligible healthcare expenses for all family members (as long as they are not listed as the dependent on another’s income tax return), even if the other eligible family members are not covered under a “high deductible” health plan (but the expenses paid for by the HSA may not be covered by other insurance).
- Participation in a health Flexible Spending Account (FSA) would prevent the individual from making a contribution into an HSA at the same time, unless the FSA covered only dental and vision expenses that would not otherwise be covered by the HDHP. Also, participation in a spouse’s health plan that is not a HDHP would prevent an individual from making a contribution into an HSA. Finally, expenses below the deductible of the HDHP may not be covered by an employer’s Medical Expense Reimbursement Account, if there is one. **(Note: IRS Notice 2005-86 allows the employer to amend the FSA Plan Document to provide for “limited benefit” FSA plans (that do not pay for medical expenses but pay for dental and vision expenses, etc.) or “post-deductible” health FSA plans that pay medical expenses only when the HDHP deductible has been met. If the FSA has been amended to allow for the 2 ½ month extension, the FSA participant could make HSA contributions during the 2 ½ month extension if the employer or plan sponsor transferred all HSA participants into either a limited benefit or post-deductible FSA plan (or both) on a mandatory basis. As transition relief, for plans with plan years ending before June 5, 2006, the plan sponsor could change the plan document to allow those with no funds left in the FSA at the end of the normal twelve month plan year to make HSA contributions after that point OR it could have the plan document exempt those with HDHP coverage from participating in the 2 ½ month FSA extension. Further, the Tax Relief and Health Care Act of 2006 (TRHCA), for tax years starting in 2007, repeats the ability of one in an FSA with no funds available as of the end of the plan to**

make an HSA contribution, as well as providing the opportunity to roll over the amount available at the end of the plan year into the HSA. TRHCA also allows a “qualified HSA distribution” from an FSA or Health Reimbursement Arrangement (HRA) into an HSA provided the amount does not exceed the lesser of the amount available in the FSA or HRA on the date of distribution or the amount on September 21, 2006; if elected it must be contributed directly by the employer into the HSA before January 1, 2012. There is a limit of one distribution with respect to any arrangement.)

If HSA account funds are withdrawn for reasons other than paying for eligible medical expenses, the withdrawn amounts are deemed taxable income in addition to a 10% penalty tax if withdrawn in **2010**, otherwise the additional tax increases to **20%** if withdrawn in **2011 or later**. Exceptions exist for Medicare eligible individuals, and those who are disabled or the heirs of the deceased HSA holder.

Distributions from the HSA may be made at any time, but contributions must be made only while the applicable high deductible coverage is in force.

For a general helpful website for HSAs, produced by an association of health insurance companies, see: www.hsadecisions.org.

Are my contributions into the Health Saving Account tax deductible?

Yes. Both the employer and the employee may make a contribution in the same year. (Contributions are deductible by either the employer or employee. In the case of self-employed individuals, the deduction would be taken on the individual tax return—whether or not the individual itemized his/her return.) For non-owner employees who receive a W-2, a special Box 12 has been added to the W-2 form to report employer contributions. Note: if the employer makes HSA contributions outside of a cafeteria plan, it must do so on a nondiscriminatory basis for all eligible employees, which can be the same dollar amount per person or the same percentage. If the employer contributions are deemed discriminatory, there is a 35% excise tax to the employer. **Note: this applies to federal tax law. See the question below regarding California tax law.**

How are HSA contributions and earnings treated in California for state tax purposes?

The above tax deductions apply to federal taxes under federal law. California has not yet passed conforming legislation to have the state taxes match the federal tax treatment. At present, for California tax purposes, contributions into an HSA are not tax deductible (even if paid on a pre-tax basis), and the earnings within the HSA are income taxable. However, withdrawals from the HSA are tax free, even if not for medical expenses. Also, at present, rollovers from Archer MSAs are not tax exempt for state tax purposes, even though they are for federal tax purposes.

Are there limits to how much I may put into the Health Savings Account or how large the account may become in later years?

The covered HSA member is allowed to deduct the contribution into the HSA up to **\$3,050 (in 2011)** and **\$3,100 (in 2012)** for individual and **\$6,150 (in 2011)** and **\$6,250 (in 2012)** for family coverage (indexed in later years). **Prior to 2007, the HSA regulations limited a member who became eligible to make an HSA contribution at a date other than January 1 to a pro-rata share of maximum annual HSA contribution. For example, if the maximum available HSA contribution had been \$2,400, and the member became eligible to make an HSA contribution on July 1 (i.e., halfway through the year), the maximum HSA contribution would have been half of \$2,400 the first year. TRHCA amends that to allow the member to contribute the entire amount into the HSA regardless of when the person became eligible; however, TRHCA adds a provision that if the person ceases to remain eligible to make an HSA contribution throughout the remainder of that tax year and all of the following tax year, the amount contributed above the pro-rata amount will be deemed taxable income, along with an additional 10% excise penalty.**

For rollover amounts from FSAs, HRS, or IRAs, the tax act TRHCA created a term “Testing Period,” which in this case is the twelve month period starting with the month that the rollover is first distributed into the HSA. For such rollovers, the member must remain HSA-contribution eligible in a High Deductible Health Plan during the Testing Period, otherwise he/she will be required to take up as taxable income the amount of the rollover, plus an additional 10% excise tax will be imposed (unless the change in coverage is due to loss of eligibility due to death or disability).

Those who are 55 or older as of the last day of the taxable year may make additional contributions on a tax deductible basis, as shown below for the years shown. It no longer makes a difference when the HSA was started. If the person begins the HSA as late as December 1, the person may still make the maximum contribution for the year, including the age 55+ “catch up” contribution amount below.

Calendar Year	Additional Contribution Amount
2008	\$900
2009 and later	\$1,000

The above contribution amounts, including the additional contributions for those 55 and older, are prorated for the remaining amount of time left in the calendar year.

If amounts greater than the above are put in, the excess amount must be removed prior to filing the tax return in order to avoid a 6% tax penalty.

What kinds of health plans may I have in addition to the High Deductible Health Plan that will *not* prevent me from being able to make an HSA contribution?

HSA contributions are not available when the insured is also insured by most other medical plans, including any parts of Medicare. Even Health FSAs (where pre-tax dollars are used to pay for unreimbursed medical expenses) can make one ineligible for HSA contributions.

However, HSA contributions may be made if the other insurance qualifies as “permitted insurance.” The HSA rules consider such “permitted insurance” to include “insurance for a specified disease or illness.” Thus, policies such as indemnity or cash payment policies for cancer and other illnesses are permitted, as are Employee Assistance Programs, policies that pay a flat amount of money per day for hospitalization, accident policies, discount cards, disease management programs, and wellness programs. Some of these permitted insurance plans are the type popularized by companies such as Colonial Life and AFLAC.

Health FSAs that pay only dental and vision expenses or pay only when the medical deductible has been met are other forms of “permitted insurance.” In normal circumstance one who is age 65 or older may not make an HSA contribution unless Medicare Parts A, B, C, and D have been waived or not signed up for (but if one receives Social Security retirement benefits, Part A will be automatically provided unless formal waiver paperwork is completed).

May money from an IRA be rolled over into a Health Savings Account?

Starting in 2007, members may roll over to their HSA an amount not to exceed the normal annual contribution (reduced any other contributions that may have been made during the year). This may only be done once in a lifetime, but if done the amount rolled over does not constitute taxable income to the member. The transfer must be a trustee-to-trustee direct transfer.

This also includes a “Testing Period,” which is the twelve month period starting with the month that the rollover is first distributed into the HSA. Again, for such rollovers, the member must remain HSA-contribution eligible in a High Deductible Health Plan during the Testing Period, otherwise he/she will be required to take up as taxable income the amount of the rollover, plus an additional 10% excise tax will be imposed (unless the change in coverage is due to loss of eligibility because of death or disability).

If I withdraw money from my Health Savings Account, does that money come out on an income tax free basis?

Yes, if the money is used for **[1]** eligible medical expenses, **[2]** COBRA premiums, **[3]** Medicare premiums such as Parts A, B or D (or a Medicare Risk policy) or employer-based coverage if the member is age 65 or older (HSA funds for one under age 65 may NOT be used on a tax-free basis to pay for the Medicare premiums of a spouse who is entitled to Medicare), **[4]** Long Term Care insurance premiums (up to the statutory deductible limits), or **[5]** premiums for healthcare coverage while one is receiving federal or state unemployment benefits. If the money is withdrawn for other reasons, the withdrawn amount would be deemed taxable income, and a 10% additional penalty would apply for federal income tax if withdrawn prior to age 65. Exceptions exist for Medicare eligible individuals, and those who are disabled or the heirs of the deceased HSA holder.

Note: see below for an answer to the question, *What are the eligible medical expenses for reimbursement under a Health Savings Account (HSA)?*

May I make a tax-free withdrawal from my Health Savings Account to pay for the medical expenses of a family member who is not covered by a High Deductible Health Plan?

Yes. The IRS considers a spouse or child who is a legal dependent to be eligible for tax free payment or reimbursement of eligible expenses, even if that person was never covered by a High Deductible Health Plan.

Is a Health Savings Account portable in case I leave the company?

Yes, the HSA is owned by the employee, not the employer.

Are there fees involved in having a Health Savings Account?

There may be fees for monthly or annual administration by the provider of the HSA, so this should be reviewed prior to signing up with the HSA.

Do the HSAs have debit cards to make withdrawing the money easier?

Very often they do have such cards, but the debit cards can present problems. Most High Deductible Health Plans are PPOs, meaning that discounts are provided when a PPO provider is seen, even if the deductible has not yet been met. When a PPO provider is seen, the discounted cost of the service is not known until the insurance company has re-priced the bill (medical offices and hospitals almost never know the discounted cost at point of service). If the PPO provider does not require money up front, it will bill the service for you to the health plan and later when the bill has been priced (and typically shown on the health plan's Evidence of Benefit form), the member may return to the office and pay the correct amount. It might be possible to use it over the phone, as well. A problem arises, however, at a pharmacy, since pharmacies typically require payment at point of sale. One possible alternative is to have a prescription drug discount card, where the pharmacist can re-price at point of sale. (Many health plans provide their discounted information to the pharmacy at point of sale, so there would be no problem in such a case.)

Is there tax paperwork to be filled out to have an HSA?

Anyone with an HSA will need to file **Form 8889** as an attachment to Form 1040 for years in which a contribution into the HSA is made (by employee or employer) or a distribution is taken from the account. **Thus, in those years it will not be possible to file the taxes using Form 1040-A or Form 1040-EZ. Your HSA vendor will supply you with Form 5498-SA for any contributions you made and Form 1099-SA for any distributions.**

What are the eligible medical expenses for reimbursement under a Health Savings Account (HSA)?

In general, medical expenses that are listed in §213(d) of the Internal Revenue Code are eligible, including most over-the-counter (OTC) drugs (which usually excludes vitamins and other wellness related drugs). **However, under federal healthcare reform legislation, starting in 2011 OTC drugs are not eligible for reimbursement under an HSA or FSA without a physician's prescription.**

The following is meant as a guide to what is covered. It is taken from the 2010 IRS Publication 502, which lists eligible medical expenses for tax deduction purposes. (Normally, *without* an HSA or FSA, medical expenses are not deductible unless they exceed 7.5% of your adjusted gross income—which amount increases to 10% in 2013 under the healthcare reform legislation.) The following language is slightly edited to avoid confusion, since the actual list from Publication 502 includes expenses that do not come under an HSA.

This list is also updated for the change in mileage for medical expenses, promulgated on June 22, 2011.

“What Medical Expenses are Includible?”

Following is a list of items that you can include in figuring your medical expense deduction. The items are listed in alphabetical order.

This list does not include all possible medical expenses. To determine if an expense not listed can be included in figuring your medical expense deduction, see *What Are Medical Expenses*, earlier [in Publication 502].

Abortion

You can include in medical expenses the amount you pay for a legal abortion.

Acupuncture

You can include in medical expenses the amount you pay for acupuncture.

Alcoholism

You can include in medical expenses amounts you pay for an inpatient's treatment at a therapeutic center for alcohol addiction. This includes meals and lodging provided by the center during treatment. You can also include in medical expenses amounts you pay for transportation to and from Alcoholics Anonymous meetings in your community if the attendance is pursuant to medical advice that membership in Alcoholics Anonymous is necessary for the treatment of a disease involving the excessive use of alcoholic liquors.

Ambulance

You can include in medical expenses amounts you pay for ambulance service.

Annual Physical Examination

See **Physical Examination**, later.

Artificial Limb

You can include in medical expenses the amount you pay for an artificial limb.

Artificial Teeth

You can include in medical expenses the amount you pay for artificial teeth.

Autoette

See **Wheelchair**, later.

Bandages

You can include in medical expenses the cost of medical supplies such as bandages used.

Birth Control Pills

You can include in medical expenses the amount you pay for birth control pills prescribed by a doctor.

Body Scan

You can include in medical expenses the cost of an electronic body scan.

Braille Books and Magazines

You can include in medical expenses the part of the cost of Braille books and magazines for use by a visually impaired person that is more than the price for regular printed editions.

Breast Reconstruction Surgery

You can include in medical expenses the amounts you pay for breast reconstruction surgery following a mastectomy for cancer.

Capital Expenses

You can include in medical expenses amounts you pay for special equipment installed in your home, or for improvements, if their main purpose is medical care for you, your spouse, or a dependent. The cost of permanent improvements that increase the value of the property may be partly included as a medical expense. The cost of the improvement is reduced by the increase in the value of the property. The difference is a medical expense. If the value of the property is not increased by the improvement, the entire cost is included as a medical expense. Certain improvements made to accommodate your home to your disabled condition, or that of your spouse or your dependents who live with you, do not usually increase the value of the home and the cost can be included in full as medical expenses. These improvements include, but are not limited to, the following items.

- Constructing entrance or exit ramps for your home.
- Widening doorways at entrances or exits to your home.
- Widening or otherwise modifying hallways and interior doorways.
- Installing railings, support bars, or other modifications to bathrooms.
- Lowering or modifying kitchen cabinets and equipment.
- Moving or modifying electrical outlets and fixtures.
- Installing porch lifts and other forms of lifts (but elevators generally add value to the house) .
- Modifying fire alarms, smoke detectors, and other warning systems.
- Modifying stairways.
- Adding handrails or grab bars anywhere (whether or not in bathrooms) .
- Modifying hardware on doors.
- Modifying areas in front of entrance and exit doorways.
- Grading the ground to provide access to the residence.

Only reasonable costs to accommodate a home to a disabled condition are considered medical care. Additional costs for personal motives, such as for architectural or aesthetic reasons, are not medical expenses. . . .

Car

You can include in medical expenses the cost of special hand controls and other special equipment installed in a car for the use of a person with a disability.

Special design. You can include in medical expenses the difference between the cost of a regular car and a car specially designed to hold a wheelchair.

Cost of operation. The includible costs of using a car for medical reasons are explained under **Transportation**, later.

Chiropractor

You can include in medical expenses fees you pay to a chiropractor for medical care.

Christian Science Practitioner

You can include in medical expenses fees you pay to Christian Science practitioners for medical care.

Contact Lenses

You can include in medical expenses amounts you pay for contact lenses needed for medical reasons. You can also include the cost of equipment and materials required for using contact lenses, such as saline solution and enzyme cleaner. See **Eyeglasses** and **Eye Surgery**, later.

Crutches

You can include in medical expenses the amount you pay to buy or rent crutches.

Dental Treatment

You can include in medical expenses the amounts you pay for the prevention and alleviation of dental disease. Preventive treatment includes the services of a dental hygienist or dentist for such procedures as teeth cleaning, the application of sealants, and fluoride treatments to prevent tooth decay. Treatment to alleviate dental disease include services of a dentist for procedures such as X-rays, fillings, braces, extractions, dentures, and other dental ailments. But see **Teeth Whitening** under *What Expenses are Not Includible*, later [in IRS Publication 502].

[Note: the IRS publication lists expenses to whiten teeth that are discolored due to age under its separate section on which medical expenses may NOT be deducted or reimbursed under a cafeteria flexible spending account. Proposed regulations in 2007 indicate that it is acceptable to include as a medical expense the up front cost paid for planned orthodontia care even before the care is completed.]

Diagnostic Devices

You can include in medical expenses the cost of devices used in diagnosing and treating illness and disease.

Example. You have diabetes and use a blood sugar test kit to monitor your blood sugar level. You can include the cost of the blood sugar test kit in your medical expenses.

Disabled Dependent Care Expenses

Some disabled dependent care expenses may qualify as either:

- medical expenses, or
- Work-related expenses for purposes of taking a credit for dependent care.

You can choose to apply them either way as long as you do not use the same expenses to claim both a credit and a medical expense deduction.

Drug Addiction

You can include in medical expenses amounts you pay for an inpatient's treatment at a therapeutic center for drug addiction. This includes meals and lodging at the center during treatment.

Drugs

See **Medicines**, later.

Eyeglasses

You can include in medical expenses amounts you pay for eyeglasses and contact lenses needed for medical reasons. See **Contact Lenses**, earlier [in IRS Publication 502] for more information. You can also include fees paid for eye examinations.

Eye Surgery

You can include in medical expenses amounts you pay for eye surgery to treat defective vision, such as laser eye surgery or radial keratotomy.

Fertility Enhancement

You can include in medical expenses amounts the cost of the following procedures to overcome your inability to have children:

- Procedures such as **in vitro** fertilization (including temporary storage of eggs or sperm).
- Surgery, including an operation to reverse prior surgery that prevented the person operated on from having children.

Founder's Fee

See **Lifetime Care—Advance Payments**, later.

Guide Dog or Other Service Animal

You can include in medical expenses the cost of buying, training, and maintaining a guide dog or other service animal to assist a visually-impaired or hearing-impaired person, or a person with other physical disabilities.

Health Institute

You can include in medical expenses fees you pay for treatment at a health institute only if the treatment is prescribed by a physician and the physician issues a statement that the treatment is necessary to alleviate a physical or mental defect or illness in the individual receiving the treatment.

Health Maintenance Organization (HMO)

You can include in medical expenses amounts you pay to entitle you, your spouse or a dependent to receive medical care from a health maintenance organization. These amounts are treated as medical insurance premiums. [Note: medical insurance premiums are not covered under a Flexible Spending Account for unreimbursed health care expenses, but they may be paid on a pre-tax basis elsewhere under flex plan regulations. They also may not be paid on a tax-free basis from a Health Savings Account (HSA) except when the member is paying for COBRA coverage or certain circumstances where the member is receiving unemployment compensation.]

Hearing Aids

You can include in medical expenses the cost of a hearing aid and the batteries you buy to operate it.

Home Care

See **Nursing Services**, later.

Home Improvements

See **Capital Expenses**, earlier.

Hospital Services

You can include in medical expenses amounts you pay for the cost of inpatient care at a hospital or similar institution if a principal reason for being there is to receive medical care. This includes amounts paid for meals and lodging. Also see **Lodging**, later.

Intellectually and Developmentally Disabled, Special Home for

You can include in medical expenses the cost of keeping a person who is intellectually and developmentally disabled in a special home, not the home of a relative, on the recommendation of a psychiatrist to help the person adjust from life in a mental hospital to community living.

Laboratory Fees

You can include in medical expenses the amounts you pay for laboratory fees that are part of medical care.

Lead-based Paint Removal

You can include in medical expenses the cost of removing lead-based paints from surfaces in your home to prevent a child who has or has had lead poisoning from eating the paint. These surfaces must be in poor repair (peeling or cracking) or within the child's reach. The cost of repainting the scraped area is not a medical expense. If, instead of removing the paint, you cover the area with wallboard or paneling, treat these items as capital expenses. See **Capital Expenses**, earlier. Do not include the cost of painting the wallboard as a medical expense.

Learning Disability

See **Special Education**, later.

Legal Fees

You can include in medical expenses legal fees you paid that are necessary to authorize treatment for mental illness. However, you cannot include in medical expenses fees for the management of a guardianship estate, fees for conducting the affairs of the person being treated, or other fees that are not necessary for medical care.

Lifetime Care—Advance Payments

You can include in medical expenses a part of a life-care fee or “founder's fee” you pay either monthly or as a lump sum under an agreement with a retirement home. The part of

the payment you include is the amount properly allocable to medical care. The agreement must require that you pay a specific fee as a condition for the home's promise to provide lifetime care that includes medical care. You can use a statement from the retirement home to prove the amount properly allocable to medical care. The statement must be based either on the home's prior experience or on information from a comparable home.

Dependents with disabilities. You can include in medical expenses advance payments to a private institution for lifetime care, treatment, and training of your physically or mentally impaired child upon your death or when you become unable to provide care. The payments must be a condition for the institution's future acceptance of your child and must not be refundable.

Payments for future medical care. Generally, you cannot include in medical expenses current payments for medical care (including medical insurance) to be provided substantially beyond the end of the year. This rule does not apply in situations where the future care is purchased in connection with obtaining lifetime care of the type described earlier.

Lodging

You can include in medical expenses the cost of meals and lodging at a hospital or similar institution if your principal reason for being there is to receive medical care. See **Nursing Home**, later.

You may be able to include in medical expenses the cost of lodging not provided in a hospital or similar institution. You can include the cost of such lodging while away from home if all of the following requirements are met.

- 1) The lodging is primarily for and essential to medical care.
- 2) The medical care is provided by a doctor in a licensed hospital or in a medical care facility related to, or the equivalent of, a licensed hospital.
- 3) The lodging is not lavish or extravagant under the circumstances.
- 4) There is no significant element of personal pleasure, recreation, or vacation in the travel away from home.

The amount you include in medical expenses for lodging cannot be more than \$50 for each night for each person. You can include lodging for a person traveling with the person receiving the medical care. For example, if a parent is traveling with a sick child, up to \$100 per night can be included as a medical expense for lodging. Meals are not included.

Do not include the cost of your lodging while you are away from home for medical treatment if that treatment is not received from a doctor in a licensed hospital or in a medical care facility related to, or the equivalent of, a licensed hospital or if that lodging is not primarily for or essential to the medical care received.

Long-Term Care

You can include in medical expenses amounts paid for qualified long-term care services and premiums paid for qualified long-term care insurance contracts. . . . [While a Flexible Spending

Account may **not** pay for insurance premiums for Long-Term Care insurance, such premiums may be paid up to certain limits by a Health Savings Account.]

Meals

You can include in medical expenses the cost of meals at a hospital or similar institution if a main reason for being there is to get medical care. You cannot include in medical expenses the cost of meals that are not part of inpatient care.

Medical Conferences

You can include in medical expenses amounts paid for admission and transportation to a medical conference if the medical conference concerns the chronic illness of yourself, your spouse, or your dependent. The costs of the medical conference must be primarily for and necessary to the medical care of you, your spouse, or your dependent. The majority of the time spent at the conference must be spent attending sessions on medical information.

The cost of meals and lodging while attending the conference is not deductible as a medical expense.

Medical Information Plan

You can include in medical expenses amounts paid to a plan that keeps medical information in a computer data bank and retrieves and furnishes the information upon request to an attending physician.

Medicines

You can include in medical expenses amounts you pay for prescribed medicines and drugs. A prescribed drug is one that requires a prescription by a doctor for its use by an individual. You can also include amounts you pay for insulin. Except for insulin, you cannot include in medical expenses amounts you pay for a drug that is not prescribed. [Check with the Plan Administrator about possible coverage for Over The Counter drugs. Federal healthcare reform legislation removes the ability for HSAs and FSAs to reimburse Over The Counter drugs unless the physician's written prescription is obtained, starting in 2011.]

[Note: This rule applies only to the deduction of medical expenses. It does not limit reimbursements of medical expenses by employer-sponsored health plans that reimburse the cost of both prescription and nonprescription medicines.]

Imported medicines and drugs. If you imported medicines and drugs from other countries, see **Medicines and Drugs From Other Countries**, under **What Expenses Are Not Includible**, [in the IRS Publication 502].

[Note: under the healthcare reform legislation, starting in 2011, Over the Counter (OTC) drugs will no longer be eligible for tax free reimbursement from a Flexible Spending Account or Health Savings Account unless the physician's prescription for that drug was obtained.]

Nursing Home

You can include in medical expenses the cost of medical care in a nursing home, home for the aged, or similar institution for yourself, your spouse, or your dependents. This includes the cost of meals and lodging in the home if the principal reason for being there is to get medical care. Do not include the cost of meals and lodging if the reason for being in the home is personal. You can, however, include in medical expenses the part of the cost that is for medical or nursing care.

Nursing Services

You can include in medical expenses wages and other amounts you pay for nursing services. The services need not be performed by a nurse as long as the services are of a kind generally performed by a nurse. This includes services connected with caring for the patient's condition, such as giving medication or changing dressings, as well as bathing and grooming the patient. These services can be provided in your home or another care facility.

Generally, only the amount spent for nursing services is a medical expense. If the attendant also provides personal and household services, amounts paid to the attendant must be divided between the time spent performing household and personal services and the time spent for nursing services. However, certain maintenance or personal care services provided for qualified long-term care can be included in medical expenses. . . . Additionally, certain expenses for household services or for the care of a qualifying individual incurred to allow you to work may qualify for the child and dependent care credit. See Publication 503, **Child and Dependent Care Expenses**.

You can also include in medical expenses part of the amounts you pay for that attendant's meals. Divide the food expense among the household members to find the cost of the attendant's food. Then divide that cost in the same manner as in the preceding paragraph. If you had to pay additional amounts for household upkeep because of the attendant, you can include the extra amounts with your medical expenses. This includes extra rent or utilities you pay because you moved to a larger apartment to provide space for the attendant.

Employment taxes. You can include as a medical expense social security tax, FUTA, Medicare tax, and state employment taxes you pay for an attendant who provides medical care. If the attendant also provides personal and household services, you can include as a medical expense only the amount of employment taxes paid for medical services as explained earlier. For information on employment tax responsibilities of household employers, see Publication 926, **Household Employer's Tax Guide**.

Operations

You can include in medical expenses amounts you pay for legal operations that are not for unnecessary cosmetic surgery. See **Cosmetic Surgery** under **What Expenses Are Not Included** . . . [in the IRS Publication 502].

Optometrist

See **Eyeglasses**, earlier.

Organ Donors

See **Transplants**, later.

Osteopath

You can include in medical expenses amounts you pay to an osteopath for medical care.

Oxygen

You can include in medical expenses amounts you pay for oxygen and oxygen equipment to relieve breathing problems caused by a medical condition.

Physical Examination

You can include in medical expenses the amount you pay for an annual physical examination and diagnostic tests by a physician. You do not have to be ill at the time of the examination.

Example. Beth goes to see Dr. Hayes for her annual check-up. Dr. Hayes does a physical examination and has some lab tests done. Beth can include the cost of the exam and lab tests in her medical expenses, if her insurance does not cover the cost.

Pregnancy Test Kit

You can include in medical expenses the amount you pay to purchase a pregnancy test kit to determine if you are pregnant.

Prosthesis

See **Artificial Limb**, earlier.

Psychiatric Care

You can include in medical expenses amounts you pay for psychiatric care. This includes the cost of supporting a mentally ill dependent at a specially equipped medical center where the dependent receives medical care. See **Psychoanalysis**, next, and **Transportation**, later.

Psychoanalysis

You can include in medical expenses payments for psychoanalysis. However, you cannot include payments for psychoanalysis that is part of required training to be a psychoanalyst.

Psychologist

You can include in medical expenses amounts you pay to a psychologist for medical care.

Special Education

You can include in medical expenses payments fees you pay on a doctor's recommendation for a child's tutoring by a teacher who is specially trained and qualified to work with children who have learning disabilities caused by mental or physical impairments, including nervous system disorders.

You can also include in medical expenses the cost (tuition, meals, and lodging) of attending a school that furnishes special education to help a child overcome learning disabilities. A doctor must recommend that the child attend the school. Overcoming the learning disabilities must be a principal reason for attending the school, and any ordinary education received must be incidental to the special education provided. Special education includes:

- Teaching Braille to a visually impaired person,
- Teaching lip reading to a hearing-impaired person, or

- Giving remedial language training to correct a condition caused by a birth defect.

You cannot include in medical expenses the cost of sending a problem child to a school where the course of study and the disciplinary methods have a beneficial effect on the child's attitude if the availability of medical care in the school is not a principal reason for sending the student there.

Sterilization

You can include in medical expenses the cost of a legal sterilization (a legally performed operation to make a person unable to have children).

Stop-Smoking Program

You can include in medical expenses amounts you pay for a program to stop smoking. However, you cannot include in medical expenses amounts you pay for drugs that do not require a prescription, such as nicotine gum or patches, that are designed to help stop smoking.

Surgery

See **Operations**, earlier.

Telephone

You can include in medical expenses the cost of special telephone equipment that lets a hearing-impaired person communicate over a regular telephone. This includes teletypewriter (TTY) and telecommunications device for the deaf (TDD) equipment. You can also include the cost of repairing the equipment.

Television

You can include in medical expenses the cost of equipment that displays the audio part of television programs as subtitles for hearing-impaired persons. This may be the cost of an adapter that attaches to a regular set. It also may be the part of the cost of a specially equipped television that exceeds the cost of the same model regular television set.

Therapy

You can include in medical expenses amounts you pay for therapy you receive as medical treatment.

Transplants

You can include any expenses you pay for medical care you receive because you are a donor or a possible donor of a kidney or other organ. This includes transportation.

You can include any expenses you pay for the medical care of a donor in connection with the donating of an organ. This includes transportation.

Transportation

You can include in medical expenses amounts paid for transportation primarily for, and essential to, medical care.

You can include:

- Bus, taxi, train, or plane fares, or ambulance service,
- Transportation expenses of a parent who must go with a child who needs medical care,
- Transportation expenses of a nurse or other person who can give injections, medications, or other treatment required by a patient who is traveling to get medical care and is unable to travel alone, and
- Transportation expenses for regular visits to see a mentally ill dependent, if these visits are recommended as a part of treatment.

Car expenses. You can include out-of-pocket expenses for your car, such as gas and oil when you use your car for medical reasons. You cannot include depreciation, insurance, general repair, or maintenance expenses.

If you do not want to use your actual expenses, for 2011 you can use a standard medical rate of 19 cents a mile for January 1 – June 30, and for the rest of the year a rate of 23.5¢. You can also include the cost of parking fees and tolls. You can add these fees and tolls to your medical expenses whether you include actual expenses or use the standard mileage rate.

Example. Bill Jones drove 2,800 miles for medical reasons during the first half of the year. He spent \$400 for gas, \$30 for oil, and \$100 for tolls and parking. He wants to figure the amount he can include in medical expenses both ways to see which gives him the greater deduction. He figures the actual expenses first. He adds the \$400 for gas, the \$30 for oil, and the \$100 for tolls and parking for a total of \$530.

He then figures the standard mileage amount. He multiplies the 2,800 miles by 19 cents a mile for a total of \$532. He then adds the \$100 tolls and parking for a total of \$632. Bill includes the \$562 of car expenses with his other medical expenses for the year because the \$632 is more than the \$530 he figured using actual expenses.

Transportation expenses you cannot include. You cannot include in medical expenses the cost of transportation in the following situations.

- Going to and from work, even if your condition requires an unusual means of transportation.
- Travel for purely personal reasons to another city for an operation or other medical care.
- Travel that is merely for the general improvement of one's health.
- The costs of operating a specially equipped car for other than medical reasons.

Trips

You can include in medical expenses amounts you pay for transportation to another city if the trip is primarily for, and essential to, receiving medical services. You may be able to include up to \$50 per night for lodging. See **Lodging**, earlier.

You cannot include in medical expenses a trip or vacation taken merely for a change in environment, improvement of morale, or general improvement of health, even if the trip is made on the advice of a doctor. However, see **Medical Conferences** earlier.

Tuition

Under special circumstances, you can include charges for tuition in medical expenses. See **Special Education**, earlier. . . .

Vasectomy

You can include in medical expenses the amount you pay for a vasectomy.

Vision Correction Surgery

See **Eye Surgery**, earlier.

Weight Loss Program

You can include in medical expenses amounts you pay to lose weight if it is a treatment for a specific disease diagnosed by a physician (such as obesity, hypertension, or heart disease). This includes fees you pay for membership in a weight reduction group as well as fees for attendance at periodic meetings. You cannot include membership dues in a gym, health club, or spa as medical expenses, but you can include separate fees charged there for weight loss activities.

You cannot include the cost of diet food or beverages in medical expenses because the diet food and beverages substitute for what is normally consumed to satisfy nutritional needs. You can include the cost of special foods in medical expenses only if:

- 1) The food does not satisfy normal nutritional needs,
- 2) The food alleviates or treats an illness, and
- 3) The need for the food is substantiated by a physician.

The amount you can include in medical expenses is limited to the amount by which the cost of the special food exceeds the cost of a normal diet. See also **Weight-Loss Program** under **What Expenses Are Not Includible**. . . . [in the IRS Publication 502].

Wheelchair

You can include in medical expenses amounts you pay for an autoette or a wheelchair used mainly for the relief of sickness or disability, and not just to provide transportation to and from work. The cost of operating and maintaining the autoette or wheelchair is also a medical expense.

Wig

You can include in medical expenses the cost of a wig purchased upon the advice of a physician for the mental health of a patient who has lost all of his or her hair from disease.

X-ray

You can include in medical expenses amounts you pay for X-rays that you pay for medical reasons.”