

# 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](http://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](http://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.

### Box 1. Gross Distribution

Enter the total amount of the distribution. Include any earnings separately reported in box 2. You are not required to determine the taxable amount of a distribution. Do not report a negative amount in box 1.

### Box 2. Earnings on Excess Contributions

Enter the total earnings distributed with any excess HSA or Archer MSA contributions returned by the due date of the account holder's tax return. Include this amount in box 1. Report earnings on other distributions only in box 1. Do not report excess MA MSA contributions returned to the Secretary of Health and Human Services or his or her representative.

### Box 3. Distribution Code

Enter the appropriate distribution code from the list below that shows the type of distribution.

1—Normal distributions	Use this code for normal distributions to the account holder and any direct payments to a medical service provider. Use this code if no other code applies. Also, see <i>Distribution after year of death</i> on page SA-1.
2—Excess contributions	Use this code for distributions of excess HSA or Archer MSA contributions. Do not use this code for excess MA MSA contributions returned to the Secretary of Health and Human Services or his or her representative.
3—Disability	Use this code if you made distributions after the account holder was disabled (see section 72(m)(7)).
4—Death distribution other than code 6	Use this code for payments to a decedent's estate in the year of death. Also use this code for payments to an estate after the year of death. Do not use with code 6. See <i>Death of Account Holder</i> on page SA-1.
5—Prohibited transaction	See sections 220(e)(2) and 223(e)(2).
6—Death distribution after year of death to a nonspouse beneficiary	Use this code for payments to a decedent's nonspouse beneficiary, other than an estate, after the year of death. Do not use with code 4.

### Box 4. FMV on Date of Death

If the account holder died, enter the FMV of the account on the date of death. See *Death of Account Holder* on page SA-1.

### Box 5. Checkbox

Check the box to indicate if this distribution was from an HSA, Archer MSA, or MA MSA.

## Specific Instructions for Form 5498-SA

File Form 5498-SA, HSA, Archer MSA, or Medicare Advantage MSA Information, with the IRS on or before June 2, 2008, for each person for whom you maintained an HSA, Archer MSA, or Medicare Advantage MSA (MA MSA) during 2007. You are required to file if you are the trustee or custodian of an HSA, Archer MSA, or MA MSA. A separate form is required for each type of plan.

For HSA or Archer MSA contributions made between January 1, 2008, and April 15, 2008, you should obtain the participant's designation of the year for which the contributions are made.

For repayment of a mistaken distribution amount, see *HSA mistaken distributions* on page SA-1.

### Rollovers

You must report the receipt of a rollover from one Archer MSA to another Archer MSA, and receipt of a rollover from an Archer MSA or an HSA to an HSA in box 4.

### Transfers

Do not report a trustee-to-trustee transfer from one Archer MSA or MA MSA to another Archer MSA or MA MSA, from an Archer MSA to an HSA, or from one HSA to another HSA. For reporting purposes, contributions and rollovers do not include these transfers. However, see box 2 below for the reporting of a trustee-to-trustee transfer from an IRA to an HSA and box 4 for

the reporting of a direct transfer of employer contributions from a health reimbursement arrangement (HRA) or health flexible spending arrangement (FSA) to an HSA.

### Total Distribution, No Contributions

Generally, if a total distribution was made from an HSA or Archer MSA during the year and no contributions were made for that year, you need not file Form 5498-SA nor furnish a statement to the participant to reflect that the FMV on December 31 was zero.

### Death of Account Holder

In the year an HSA, Archer MSA, or MA MSA owner dies, generally you must file a Form 5498-SA and furnish a statement for the decedent. If the beneficiary is the spouse:

- The spouse becomes the account holder of the HSA or 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. For rules that apply to HSAs, see Notice 2004-2, Q/A-31 which is on page 269 of Internal Revenue Bulletin 2004-2 at [www.irs.gov/pub/irs-irbs/irb04-02.pdf](http://www.irs.gov/pub/irs-irbs/irb04-02.pdf).

If the beneficiary is not the spouse or there is no named beneficiary, the account ceases to be an HSA, Archer MSA, or MA MSA.

### Statements to Participants

If you are required to file Form 5498-SA, you must provide a statement to the participant (generally Copy B) by June 2, 2008. You may, but you are not required to, provide participants with a statement of the December 31, 2007, FMV of the participant's account by January 31, 2008. For more information about statements to participants, 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 5498-SA. Additionally, the IRS encourages you to designate an account number for all Forms 5498-SA that you file. See part L in the 2007 General Instructions for Forms 1099, 1098, 5498, and W-2G.

### Box 1. Employee or Self-Employed Person's Archer MSA Contributions Made in 2007 and 2008 for 2007

Enter the employee's or self-employed person's regular contributions to the Archer MSA made in 2007 and through April 15, 2008, for 2007. Report gross contributions, including any excess contributions, even if the excess contributions were withdrawn. No HSA information is to be reported in box 1.

### Box 2. Total Contributions Made in 2007

Enter the total (employer and employee/self-employed) HSA or Archer MSA contributions made in 2007. Include any contribution made in 2007 for 2006. Also include qualified HSA funding distributions (trustee-to-trustee transfers from an IRA to an HSA under section 408(d)(9)) received by you during 2007. You may, but you are not required to, report the total MA MSA contributions the Secretary of Health and Human Services or his or her representative made in 2007.

### Box 3. Total HSA or Archer MSA Contributions Made in 2008 for 2007

Enter the total (employer and employee/self-employed) HSA or Archer MSA contributions made in 2008 for 2007.

### Box 4. Rollover Contributions

Enter rollover contributions to the HSA or Archer MSA received by you during 2007. Include qualified HSA distributions (direct transfers of employer contributions from flexible spending arrangements (FSAs) and health reimbursement arrangements (HRAs) to an HSA under section 106(e)).

### Box 5. Fair Market Value of HSA, Archer MSA, or MA MSA

Enter the FMV of the account on December 31, 2007.

### Box 6. Checkbox

Check the box to indicate if this account is an HSA, Archer MSA, or MA MSA.