

IRS releases 2021 amounts for Health Savings Accounts

Published on May 26, 2020

The IRS recently released the 2021 inflation-adjusted amounts for Health Savings Accounts ("HSAs").

HSA basics

An HSA is a trust created or organized exclusively for the purpose of paying the “qualified medical expenses” of an “account beneficiary.” An HSA can only be established for the benefit of an “eligible individual” who is covered under a “high deductible health plan.” In addition, a participant can’t be enrolled in Medicare or have other health coverage (exceptions include dental, vision, long-term care, accident and specific disease insurance).

In general, a high deductible health plan ("HDHP") is a plan that has an annual deductible that isn't less than \$1,000 for self-only coverage and \$2,000 for family coverage. Furthermore, the sum of the annual deductible and other annual out-of-pocket expenses required to be paid under the plan for covered benefits (but not for premiums) cannot exceed \$5,000 for self-only coverage, and \$10,000 for family coverage.

Within specified dollar limits, an above-the-line tax deduction is allowed for an individual's contribution to an HSA. This annual contribution limitation and the annual deductible and out-of-pocket expenses under the tax code are adjusted annually for inflation.

Inflation adjustments for 2021 contributions

In Revenue Procedure 2020-32, the IRS released the 2021 inflation-adjusted figures for contributions to HSAs, which are as follows:

Annual contribution limitation. For calendar year 2021, the annual contribution limitation for an individual with self-only coverage under a HDHP is \$3,600. For an individual with family coverage, the amount is \$7,200. This is up from \$3,550 and \$7,100, respectively, for 2020.

High deductible health plan defined. For calendar year 2021, an HDHP is a health plan with an annual deductible that isn't less than \$1,400 for self-only coverage or \$2,800 for family coverage (these amounts are unchanged from 2020). Moreover, annual out-of-pocket expenses (deductibles, co-payments, and other amounts, but not premiums) can't exceed \$7,000 for self-only coverage or \$14,000 for family coverage (up from \$6,900 and \$13,800, respectively, for 2020).

A variety of benefits

There are many advantages to HSAs. Contributions to the accounts are made on a pre-tax basis. The money can accumulate year after year tax free and be withdrawn tax free to pay for a variety of medical expenses such as doctor visits, prescriptions, chiropractic care and premiums for long-term-care insurance. In addition, an HSA is “portable.” It stays with an account holder if he or she changes employers or leaves the work force. For more information about HSAs, please contact your employee benefits and tax advisor.

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