



# Instructions for Forms 1099-SA and 5498-SA

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

## What's New for 2004

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 added new Code section 223, Health Savings Accounts (HSAs), that permits eligible individuals to establish HSAs after December 31, 2003 (P.L. 108-173). HSAs, used in combination with a high deductible health plan, receive tax-favored contributions from or for an eligible individual that are distributed tax free when used to pay qualified medical expenses. Because the reporting of HSAs is similar to that of Archer MSAs, Forms 1099-MSA and 5498-MSA have been revised to include HSAs. In addition the form numbers and titles have been revised to include HSAs. For additional information on HSAs, see:

- Notice 2004-2, which is on page 269 of Internal Revenue Bulletin 2004-2 at [www.irs.gov/pub/irs-irbs/irb04-02](http://www.irs.gov/pub/irs-irbs/irb04-02);
- Notice 2004-23, which is on page 725 of Internal Revenue Bulletin 2004-15 at [www.irs.gov/pub/irs-irbs/irb04-15](http://www.irs.gov/pub/irs-irbs/irb04-15);
- Notice 2004-25 which is on page 727 of Internal Revenue Bulletin 2004-15 at [www.irs.gov/pub/irs-irbs/irb04-15](http://www.irs.gov/pub/irs-irbs/irb04-15);
- Rev. Rul. 2004-38, which is on page 717 of Internal Revenue Bulletin 2004-15 at [www.irs.gov/pub/irs-irbs/irb04-15](http://www.irs.gov/pub/irs-irbs/irb04-15);
- Rev. Proc. 2004-22, which is on page 727 of Internal Revenue Bulletin 2004-15 at [www.irs.gov/pub/irs-irbs/irb04-15](http://www.irs.gov/pub/irs-irbs/irb04-15);
- Rev. Rul. 2004-45, which is on page 971 of Internal Revenue Bulletin 2004-22 at [www.irs.gov/pub/irs-irbs/irb04-22](http://www.irs.gov/pub/irs-irbs/irb04-22);
- Notice 2004-43, on page 10 of Internal Revenue Bulletin 2004-27 at [www.irs.gov/pub/irs-irbs/irb04-27](http://www.irs.gov/pub/irs-irbs/irb04-27); and
- Notice 2004-50, 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).

Also, based on the 2003 act, any reference to a Medicare+Choice MSA includes a Medicare Advantage (MA) MSA.

**Note for 2004 only.** Because **Form 1096**, Annual Summary and Transmittal of U.S. Information Returns, was released for print prior to the new revision, enter an "X" in the box for Form 1099-MSA or Form 5498-MSA when transmitting Forms 1099-SA and 5498-SA, respectively.

## An Item To Note

In addition to these specific instructions, you should also use the **2004 General Instructions for Forms 1099, 1098, 5498, and W-2G**. Those general instructions include information about:

- Backup withholding
- Magnetic media and 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+Choice MSA, to report distributions made from an

HSA, Archer MSA, or Medicare+Choice MSA (M+C 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 M+C MSA to another Archer MSA or M+C MSA, one Archer MSA to an HSA, or from one HSA to another HSA. For reporting purposes, contributions and rollovers do not include transfers.

### Death of Account Holder

**Archer MSAs and M+C 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 M+C MSA, but no new contributions may be made to the account, and
- Distributions from an Archer MSA or M+C MSA are taxed under the rules that apply to Archer MSAs, not M+C MSAs.

If the beneficiary is not the spouse or there is no named beneficiary, the account ceases to be an Archer MSA or M+C 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 **H** in the **2004 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.

**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 M+C 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 <b>Distribution after year of death</b> on page SA-1.
2—Excess contributions	Use this code for distributions of excess HSA or Archer MSA contributions. <b>Do not</b> use this code for excess M+C 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 <b>Death of Account Holder</b> 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 M+C MSA.

## Specific Instructions for Form 5498-SA

File **Form 5498-SA**, HSA, Archer MSA, or Medicare+Choice MSA Information, with the IRS on or before May 31, 2005, for each person for whom you maintained an HSA, Archer MSA, or Medicare+Choice MSA (M+C MSA) during 2004. You are required to file if you are the trustee or custodian of an HSA, Archer MSA, or M+C MSA. A separate form is required for each type of plan.

For HSA or Archer MSA contributions made between January 1 and April 15, 2005, you should obtain the participant's designation of the year for which the contributions are made.

**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 M+C MSA to another Archer MSA or M+C 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.



*Rollovers from an IRA, a health reimbursement arrangement (HRA), or a flexible spending arrangement (FSA) to an HSA are not permitted.*

**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 M+C 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 M+C MSA, but no new contributions may be made to the account, and
- Distributions from an Archer MSA or M+C MSA are taxed under the rules that apply to Archer MSAs, not M+C MSAs. For rules that apply to HSAs, see Notice 2004-2, Q/A-31.

If the beneficiary is not the spouse or there is no named beneficiary, the account ceases to be an HSA, Archer MSA, or M+C 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 May 31, 2005. You may, but you are not required to, provide participants with a statement of the December 31, 2004, FMV of the participant's account by January 31, 2005. For more information about statements to participants, see part **H** in the **2004 General Instructions for Forms 1099, 1098, 5498, and W-2G**.

**Box 1. Employee or self-employed person's Archer MSA contributions made in 2004 and 2005 for 2004.** Enter the employee's or self-employed person's regular contributions to the Archer MSA made in 2004 and through April 15, 2005, for 2004. 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 2004.** Enter the total HSA or Archer MSA contributions made in **2004**. Include any contribution made in 2004 for 2003. You may, but you are not required to, report the total M+C MSA contributions the Secretary of Health and Human Services or his or her representative made in 2004.

**Box 3. Total HSA or Archer MSA contributions made in 2005 for 2004.** Enter the total HSA or Archer MSA contributions made in **2005 for 2004**.

**Box 4. Rollover contributions.** Enter rollover contributions to the HSA or Archer MSA received by you during 2004.

**Box 5. Fair market value of HSA, Archer MSA, or M+C MSA.** Enter the FMV of the account on December 31, 2004.

**Box 6. Checkbox.** Check the box to indicate if this account is an HSA, Archer MSA, or M+C MSA.