

HSA Transfers and Tax Implications

When HSA account holders wish to move their HSA money to a different financial institution, it's important that they understand the difference in how they transfer the money. The way in which the account is transferred may have reporting and tax ramifications. There are two different ways to move the HSA account, a trustee-to-trustee transfer or a rollover.

Trustee-to-Trustee Transfer

During a trustee-to-trustee transfer, the existing HSA provider directly transfers funds to the new HSA provider without the funds ever being "distributed". The HSA account holder is responsible for initiating the request and doesn't ever take possession of the funds. An HSA account must be opened at the new HSA provider before the funds can be transferred.

Trustee-to-trustee transfers are not reported to the IRS as distributions, so they should not affect your taxes. Transferring your HSA funds directly from one provider to another is a common process that allows account holders to move funds without tax penalties or consequences. The account holder doesn't ever take possession of the funds and they are moved directly from one HSA provider to the other.

There is no limit to the number of these transfers as there is with rollovers (see below). You do not include the amount transferred as income or deduct it as a contribution. The transferred amount is not included as a distribution on IRS tax Form 8889.

Your current HSA custodian may require you to act and liquidate any invested HSA funds back to the cash portion of the HSA. This may be a requirement and they might not transfer your HSA until the investments are sold and all your HSA funds are in the cash account portion of your HSA.

Some HSA custodians may liquidate any invested HSA funds back to the cash portion of the HSA for you.

When selling investments, ensure that the funds are returned to the HSA and not distributed to you, as any distribution may result in a taxable situation.

Direct Rollover

A Direct Rollover differs from a trustee-to-trustee Transfer as it requires the account holder to withdraw funds from their HSA through a check or ACH transfer. The account holder briefly takes possession of the funds before transferring or depositing them with a new HSA provider. The account holder has 60 days from withdrawal to deposit the funds with a new HSA provider. An HSA rollover using this method is only allowed once during a 1-year period. If the account holder fails to reinvest/deposit all the money from the old HSA into the new HSA account within 60 days, the IRS will consider it a taxable distribution. The money will be subject to income tax, and the IRS will add an additional 20% penalty because the funds were withdrawn the funds for a non-eligible reason.

All mention of taxes is made in reference to federal tax law. States can choose to follow the federal tax-treatment guidelines for HSAs or establish their own; some states tax HSA contributions. Please check with each state's tax laws to determine the tax treatment of HSA contributions or consult your tax adviser.

Withdrawals for non-qualified expenses are subject to income taxes and a possible additional 20% penalty if you're under age 65. TRI-AD nor its parent, subsidiaries, or affiliates are engaged in rendering tax or legal advice and this document is not intended as tax or legal advice.