

# BenAlert

## *Benefit Trends and Legislative Updates*



Howitt Insurance Services is pleased to provide you with periodic updates on benefit trends and legislative updates. As part of our valuable services, we want to ensure that you are in compliance and well-informed of the ongoing changes in our industry.

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## IRS Approves One Time IRA-to-HSA Funding

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Owners of individual retirement accounts (IRA) who are enrolled in a high-deductible health plan can shift IRA funds into a HSA without facing a tax penalty.

The Internal Revenue Service recently issued [Notice 2008-51](#), which provides guidance on a qualified HSA funding distribution from an IRA or a Roth IRA. Under the new rules, individuals covered by a High Deductible Health Plan (HDHP) who also own a traditional or Roth IRA can make a **one-time** IRA-to-HSA funding transfer without facing federal income taxes or penalties, IRS officials state. The transfer amount, however, cannot exceed the individual's maximum HSA contribution limit. Simple IRAs and SEP IRAs are not eligible.

In the notice, which implements provisions under the Health Opportunity Patient Empowerment Act of 2006, the IRS outlines 10 scenarios on how the rules would apply.

For example, a 57-year-old worker with a maximum annual HSA contribution of \$3,800 and an IRA account balance of \$13,550 could transfer \$3,800 from the IRA to the HSA. If their employer makes a \$1000 annual contribution, the worker could only transfer \$2,800.

The distribution from the IRA account is not included in the worker's gross income and is not subject to the additional tax. As a general rule, IRA and Roth IRA holders are subject to a 10% income tax penalty for premature withdrawals before the age 59 ½.

In addition, the money will have to go directly from the IRA trustee to the HSA trustee. If the individual ceases HDHP coverage within a one-year period of the transfer, he or she no longer receives the tax break.

Employers please note: According to the IRS, employers **are not** responsible for reporting whether an employee remains an eligible individual during the testing period.

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