

Subject 304

Medical and Health Savings Accounts

A Medical Savings Account (MSA) is a trust or custodial account that is created or organized exclusively for the purpose of paying the qualified medical expenses of the taxpayer, the taxpayer's spouse and/or the taxpayer's dependents. In order to be eligible, the taxpayer must have had insurance coverage only under a "High Deductible" Health Plan (HDHP).

Arkansas adopted Internal Revenue Code §106 concerning employer contributions to an employee Medical Savings Plan and IRC §138 concerning excluding Medicare plus MSA payments from income.

Health Savings Accounts (HSAs) enable workers with high deductible health insurance to make pre-tax contributions of \$3,650 for self-coverage (\$7,300 for families) In tax year 2022 to cover health care costs. Any amounts paid or distributed out of an HSA for payment of qualified medical expenses of any account beneficiary are not includible in gross income.

Distributions not used for payment of qualified medical expenses are includible in gross income and subject to a penalty (with certain exceptions). A high deductible health plan is defined as a plan with a minimum annual deductible of at least \$1,400 for self-only coverage (\$2,800 for family coverage) for tax year 2022.

The annual out-of-pocket expenses cannot exceed \$7,300 for self-only coverage (\$14,100 for family coverage) for tax year 2022. Out-of-pocket expenses include deductibles, co-payments, and other amounts (other than premiums) that were paid for plan benefits.