

END OF YEAR LEGISLATION INCREASES HSA FLEXIBILITY

In the final days of the 109th Congress, lawmakers approved several health care measures, including The Tax Relief and Health Care Act of 2006, Pub. L. No. 109-432 (otherwise known as the “tax extender bill”). Although the primary purpose of the tax extender legislation was to extend current but expiring tax relief provisions, the legislation became the vehicle for a number of healthcare provisions affecting the Medicare and Medicaid programs. It also further advanced the Administration’s goal of expanding the availability of health savings accounts (HSAs) by enhancing their flexibility.



The legislation contains numerous specific provisions which enhance the flexibility of HSAs and the extent to which individuals may make contributions to such accounts. In particular, the legislation allows amounts from flexible spending arrangements (FSAs) and health reimbursement arrangements (HRAs) to be distributed into HSAs; removes the existing deductible limit on HSA contributions so that eligible individuals may contribute up to the applicable annual dollar cap; excludes highly compensated employees from the comparable HSA contribution requirements; and allows for a one-time tax-free distribution from an individual’s retirement plan to fund an HSA. The text of these provisions (Sections 301-307 of Division A) is available for review at http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=109_cong_bills&docid=f:h6111enr.txt.pdf.

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