The Right Health Insurance Plan Can Save On Taxes

On January 1, 2013 a subtle tax increase came into existence that will affect many Americans in the future. This comes in the form of an increase in the deductible limits for medical expenses. Prior to 2013, a taxpayer under age 65 needed to have medical expense exceeding 7.5% of their adjusted gross income in order to deduct medical expense. This limit has increased to 10%, resulting in fewer taxpayers being able to deduct medical expenses except in the instance of high medical costs.

There is a way that almost all Americans can deduct their medical expenses. A Health Savings Account (HSA) is a health program that combines both a high deductible health insurance with a tax deductible savings account. The savings portion of this package allows an individual to deposit up to $3,250 as an individual or $6,450 for a family and receive a full tax deduction for this contribution. All medical expenses the individual or family incur for the year are then withdrawn from this savings account as a tax free expense, and whatever surplus exists rolls over to be used in the future. Each year they are eligible, the individual or family may contribute their allowed amount and receive a full tax deduction.

Using a Health Savings Account ensures that even modest medical expenses are a tax deductible expense for an individual or family. Further, the HSA can be used for a host of items known as qualified medical expenses. These expenses include dental care, eye care, and many other items that may not even be covered by the health insurance portion of this program. The IRS has a listing of items that are considered to be qualified medical expenses, but a general rule of thumb is that these are any expenses required to restore or maintain good health. Over the counter medications are typically not considered a qualified medical expense.

While there are many positive points to consider regarding a Health Savings Account, it is important to note that there are penalties for utilizing the funds in the HSA for non-qualified expenses. Much like a retirement plan, the IRS imposes a 20% penalty until age 65 for any non qualified expenses, and these withdrawals would be considered ordinary income and would be taxed accordingly.

Health Savings Account contributions are the only type of investment that offers triple tax advantages. The contributions are tax deductible in the year they are made; the assets in an HSA accumulate and grow tax deferred and can be held in a broad array of investments including stocks, bonds, and mutual funds; and the distributions made for qualified medical expenses are tax free.

An HSA offers a good alternative to rising healthcare costs and allow an individual or family to directly control their medical costs while also saving for the future. There is no “Use it or Lose it” provision so unused funds can accumulate each year and can play a significant role in retirement planning when health costs are usually the greatest.

Consider a Health Savings Account as an important part of your overall financial plan. Capitalizing on this additional tax savings benefit may have a significant impact on your future, and especially your future healthcare costs.

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