**HSA Testing Period Worksheet**

**Purpose:** Use this Worksheet to learn more about the HSA testing period and to determine if: (1) you are covered by the HSA testing period, (2) you pass or fail the test, and (3) the consequences of failure. This Worksheet is designed to work in conjunction with the HSA Eligibility and Contribution Worksheet that determines HSA eligibility and HSA contribution limits as well as the IRA to HSA Worksheet that gives an overview of the IRA to HSA contribution rules. You are responsible for properly determining whether or not you are subject to and meet the test – not the HSA custodian or trustee. This Worksheet does not provide tax or legal advice – please consult with your own tax or legal advisor.

**Testing Period Overview.** The testing period is a concept created by Congress to prevent you from receiving greater tax benefits than the government intended in two limited circumstances: (1) you become eligible for an HSA mid-year and remain eligible on December 1 (assuming a calendar tax year), and (2) you move money from an IRA to an HSA. In these cases, the rule requires that you maintain your HSA eligibility for a testing period. Individuals that fail to maintain their HSA eligibility during the testing period face taxes and a 10% penalty on the amount over contributed. The rules are different for regular contributions and IRA funding direct transfers. See page 2 for additional detail.

1. **Are You Subject to the Testing Period?** Answer the applicable question(s). Regular HSA contributions follow different testing period rules than IRA contributions. If you have both types of contributions, run the tests separately. See page 2 for help. **ASSUMPTIONS:** This worksheet assumes you were eligible for the HSA on the day of the contribution and that you are a calendar year taxpayer (most people).

   **For Regular HSA Contributions**
   Did you contribute this year and remain eligible on December 1?*
   *If you ended eligibility mid-year see page 2.

   **For Contributions From an IRA**
   Did you move money into your HSA from an IRA?

   **Testing Period Applies.**
   Go to Step 2
   **Stop.** You are not subject to the testing period.

2. **Do You Pass the Testing Period?** See page 2 for detail. Note: run tests separately if multiple contribution types.

   **For Regular HSA Contributions**
   Were you eligible for the HSA on December 1 of the year of the HSA contribution and did you remain eligible through December 31 of the year following the year of the contribution? For any contribution in 2018, the test runs from Dec 1, 2018 – Dec 31, 2019.

   **For Contributions from an IRA**
   Did you remain eligible for the HSA from the month of the distribution from the IRA until the last day of the 12th month following such month? For example, if you complete the funding on Nov 8, 2018, the test runs from Nov 1, 2018 – Nov 30, 2019.

   **You Fail.** Go to Step 3
   **You Pass.** You do not owe taxes or penalties for testing period failure.

3. **Failed the Test?** If you failed the test, you may owe taxes plus a 10% penalty. See below. Note: this worksheet assumes you did not contribute more than the maximum applicable federal HSA limit. Different rules apply if you did (for example, you moved $20,000 from your IRA to your HSA). Special rules also apply if you do both types of contributions. See page 2.

   a. **Failure Due to Death or Disability.** You do not owe taxes or penalties if the failure to meet the testing period is because of the HSA owner’s death or disability (the exception applies if the HSA owner died or is disabled).

   b. **Regular HSA Contribution Failed Test.** To determine the amount of your tax and penalty you first determine the proper contribution amount using the "sum of the months" calculation. Use the table in paragraph 6 on page 2. See paragraph 7 on page 2 for tax and penalty detail. Important: do not remove the amount as an excess.

   c. **IRA Contribution Failed Test.** You need to pay taxes plus a 10% penalty on the amount you moved from your IRA. Important: do not remove the amount as an excess.
1. Additional Background for Regular Contributions. The HSA rules allow you to contribute the full federal HSA contribution limit even if you are only eligible for an HSA starting as late as December 1 of the year (this is for calendar year taxpayers – use the first day of the last month of the tax year if not a calendar year taxpayer). This is beneficial for individuals starting HSA eligibility mid-year. The pre-2007, “sum of the months,” rule stated that individuals could only contribute 1/12 times the number of months eligible for the HSA the applicable federal HSA limit (a pro-rata amount). The current law; however, has a catch. In order to get the benefit of the full federal HSA limit, you need to meet a testing period. If you fail to meet the testing period, the pre-2007 sum of the months rule becomes a factor. If you fail the test, you will owe taxes plus a 10% penalty on the amount over contributed – see paragraphs 5 - 7 below. For additional guidance and examples, please refer to IRS Notice 2008-52. See also the HSA Eligibility and Contribution Worksheet.

2. Additional Background for IRA Contributions. The law allows people to move money from an Individual Retirement Account (IRA) into an HSA. See also the IRA to HSA Worksheet for more information on IRA funding of HSAs. This worksheet covers only the testing period for IRA direct transfers. IRA transfers are subject to different testing period rules than regular contributions.

3. Change in HDHP Coverage Type. You are not required to maintain the same type of High Deductible Health Plan (HDHP) coverage to remain eligible. For example, if you change from family HDHP coverage to single HDHP coverage during the testing period that does not result in test failure. The HDHP coverage as of December 1 is used to determine contribution limits.

4. Not Eligible on December 1. Whether or not the testing period applies is determined by whether or not you were eligible as of December 1 (for calendar year taxpayers). If you are not eligible on December 1, you are not subject to the testing period. Instead, you are simply not allowed to contribute more than the sum of the months method allows. For example, assume Ted starts his HSA in 2018 but knows that he will turn turns 65 in July, 2019. Ted knows in advance that he will fail his testing period for any 2018 contributions (because he will not remain eligible through December 31, 2019) and must plan accordingly (not contribute more than the sum of the months amount). For 2019, Ted is not allowed to make a full contribution because he will not be eligible on December 1, 2019. He must use the sum of the months method to calculate his eligible contribution amount. If he contributes too much for 2019, he must remove it as an excess contribution or face a penalty of 6% per year it remains in the HSA. This is very different treatment than the testing period. See the HSA Eligibility and Contribution Worksheet for that situation.

5. Eligible on December 1 with Example of Failed Testing Period. If you were eligible on December 1, the testing period applies. Example – Part A: Jim, age 53, enrolls in a family HDHP on December 1, 2018. Jim is not an eligible individual for any months prior to December 1. Jim can contribute the greater of the 2018 HSA federal limit for families, $6,900, or the sum of the months limit, $575 (1/12 x $6,900 – only one month’s eligibility). Jim contributes $6,900 and is subject to the testing period.

Example – Part B: Now assume that Jim ceases to be an eligible individual in June 2019. Jim’s testing period for 2018 ends on December 31, 2019, so Jim failed the testing period. In 2019, Jim must include in gross income $6,325, the amount contributed to the HSA for 2018 minus his sum of the monthly contributions limit for 2018 ($6,900-$575 = $6,325). Jim must also pay a 10% penalty of $632.5 ($6,325 x .10). The $6,325 remains in the HSA.

6. Calculating The Sum of the Months Amount to Determine Tax and Penalty Amounts. CAUTION: This chart is for regular contributions only. If you funded your HSA from your IRA do not use this chart, you owe taxes and penalties on the full amount.

<table>
<thead>
<tr>
<th>Sum of the Months Contribution Worksheet</th>
<th>Individual</th>
<th>Family (Jim Example from above)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Enter Total Amount Actually Contributed to HSA for Tax Year¹</td>
<td>$3,450 (2018)</td>
<td>$6,900 (2018)</td>
</tr>
<tr>
<td>B Federal Limit (this limit changes every year for inflation).</td>
<td>$3,500 (2019)</td>
<td>$7,000 (2019)</td>
</tr>
<tr>
<td>C Catch-Up Contribution (if between ages 55-65 add $1,000)</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>D Add B + C = Total Federal Limit</td>
<td>$6,900</td>
<td>$7,000</td>
</tr>
<tr>
<td>E Divide D by 12 = Monthly Contribution Eligibility</td>
<td>$575</td>
<td>$575</td>
</tr>
<tr>
<td>F Insert # of Months Eligible in the Year²</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>G Multiply E x F = Total Eligible Amount Based on Sum of Months</td>
<td>$575</td>
<td>$575</td>
</tr>
<tr>
<td>H Subtract G from A = Base for Taxes &amp; Penalty³</td>
<td>$6,325</td>
<td>$6,325</td>
</tr>
</tbody>
</table>

¹This includes all employer and individual contributions – not HSA to HSA rollover or transfer amounts.
²HSA contribution amounts are determined on a monthly basis and then aggregated. To determine how much you may contribute, you must determine the number of months you were covered by a HDHP and otherwise eligible as of the first day of that month.
³If zero or negative, no taxes or penalty owed. If a positive number, you owe taxes and a 10% penalty on this amount. File IRS Form 8889. You should leave this amount in the HSA and use it for eligible medical expenses. Do not take out as the return of an excess contribution or you may owe additional taxes and penalties on that distribution as well.

7. Taxes and Penalties Detail. For regular contributions, you owe federal income taxes plus a 10% penalty on the amount as calculated above. For IRA funding transfers, you owe federal income taxes plus a 10% penalty for the amount moved if you fail the testing period test. Any interest or earnings on the amount is not subject to tax or penalty. The 10% penalty applies even if you are over age 65. The amount should remain in the HSA or you will be subject to additional taxes and penalties for using your HSA for non-qualified distributions. Do not take the amount out as the return of an excess contribution. If you use these funds for non-eligible medical expenses you will be subject to taxes plus the 20% penalty applicable to non-qualified HSA distributions.

8. Both Regular and IRA to HSA Contributions. If you make both regular HSA contributions and an IRA to HSA contribution, then you run the tests separately. The tests do not interact and you can pass one and fail the other. If you fail the regular contribution test but not the IRA to HSA test (it’s a shorter test), then the amount included in gross income depends upon how you split the contributions. See IRS Notice 2008-51, Q&A 6-8 for details.