It's my turn Uncle Sam

with Mary Drueke-Collins

It is likely you have just finished filing your income taxes and don't want to think about the subject for a few months, especially if you had to write Uncle Sam a check! However, now is a great time to consider how some employer sponsored benefit accounts can help reduce your tax liability. Not all employers offer these types of programs, but if your employer does, you should consider the benefits.

If you are covered by a health insurance plan that is a Health Savings Account (HSA) eligible High Deductible Health Plan (HDHP), putting money in an HSA account is a great first step. HSA's let you use tax-free money to pay for current and save for future medical expenses. Most employers allow you to contribute to the HSA pre-tax right out of your paycheck. As an added bonus, some employers may contribute to the HSA on your behalf! The money placed into the HSA is pre-tax and is withdrawn tax-free, as long as the funds are used for qualified medical expenses. HSAs roll over from year to year, so there is no 'use-it-or-lose-it' risk and it remains with you if you leave your employer. The funds can be used for your medical, dental and vision expenses, as well as those of your dependents. There are many benefits to the HSA, but there are also limitations you should understand, such as annual maximum contribution limits and penalties for withdrawing money for reasons other than medical expenses.

If you are not eligible to contribute to an HSA, you may still be able to use pre-tax dollars for your out-of-pocket medical expenses if your employer offers a Medical Flexible Spending Account (FSA). A medical FSA allows an employee to set aside pre-tax money to pay for qualified medical expenses, including dental and vision services. A medical FSA does not have to be pre-funded, that money is available to you at the beginning of the plan year even if you haven't yet 'contributed' it to your account. One significant disadvantage of an FSA is the 'use-it-or-lose-it' provision; meaning if the funds are not used by the end of the plan year, that money is forfeited, unless your employer allows for an optional rollover. For example, if you fill prescriptions every month, at least consider putting the amount of those copayments into the FSA.

If you have dependents that are utilizing day care, you may want to take advantage of the Dependent Care FSA. The Dependent Care FSA allows you to use pre-tax dollars for day care expenses. The annual amount that can be reimbursed is capped each year at $5,000 per household. Unlike the Medical FSA, individuals can only be reimbursed up to the amount that has been contributed to the account. This account does not roll over from year to year, so you will want to use all of the funds by the end of the plan year.

As with anything associated with the tax codes, specific rules are associated with each of these accounts. There are many benefits to them, but there are limitations that you also need to consider. It is best to check with your human resources department, employee benefits advisor or tax advisor to see if you are qualified to participate. If so, next time this year Uncle Sam could be sending you a check!

For more information, please contact your trusted advisor at Swartzbaugh-Farber – 'Client Centered – Client Advocates™'.