

# Resolving HSA Excesses

## Excess Contribution Correction

### Before TRDD+

▼  
Remove with the net income attributable.

### After TRDD+

▼  
Redesignate or remove excess amount.

+ If HSA owners file their taxes by their regular or extended deadline, they are granted an automatic six month extension for removal of excess to October 15.

**Net income/loss attributable** – Net income/loss attributable is the amount of earnings specific to an excess contribution amount being removed.

**Redesignate** – To redesignate means to apply an excess contribution to a later tax year. The contribution and earnings/loss remain in the HSA. The HSA owner is still responsible for paying the six percent penalty.

## Remove Before the Deadline

### The HSA Owner

1. HSA owner avoids 6% IRS penalty
2. Contribution is not claimed as deductible or basis
3. NIA taxable for year the distribution of excess contribution was taken.
4. 20% penalty on NIA, unless exception applies

### The Financial Organization

1. Remove excess contribution with NIA
2. Original contribution reported on Form 5498-SA
3. Form 1099-SA reporting required
  - Box 1 - Gross distribution amount (i.e., excess contribution plus the NIA)
  - Box 2 - Only NIA amount
  - Box 3 - Code 2, *Excess Contributions*



## Redesignate

### The HSA Owner

1. HSA owner pays 6% IRS penalty – Form 5329
2. HSA owner redesignates for subsequent year on Form 1040

### The Financial Organization

1. Leave the excess contribution in the HSA
2. Original contribution reported on Form 5498-SA
3. No additional reporting

## Remove an Excess – After the Deadline

### The HSA Owner

1. HSA owner pays 6% IRS penalty – Form 5329
2. HSA owner calculates amount that must be included in income and subject to additional 20 percent penalty tax on Form 8889
3. Amend prior year tax return, if applicable

### The Financial Organization

1. Remove excess contribution
2. Original contribution reported on Form 5498-SA
3. Form 1099-SA reporting required
  - Box 1 - Amount of excess removed
  - Box 2 - Leave blank
  - Box 3 - Applicable code (e.g. Code 1 (normal), Code 2 (Excess contributions) or Code 3 (Disability))



# Earnings Calculation Worksheet

NOTE: Earnings must be calculated based on all investments held in the HSA

1	Contribution amount to be withdrawn as excess contribution	
2	Fair market value of the HSA on the date the excess contribution is withdrawn (prior to the transaction)	
3	Total of all distribution taken from the HSA since immediately prior to the excess contribution originally being made  Note: Distributions include, but are not limited to: transfers and rollovers. Do not include the distribution of the excess contribution.	
4	Amount of investment penalties that will be assessed on the withdrawal of the excess contribution	
5	Add steps 2 and 3	
6	Subtract Step 4 from Step 5	
7	Fair market value of the HSA immediately prior to the excess contribution being made	
8	Total of all contributions that were made to the HSA since immediately prior to the excess contribution originally being made  Note: Contributions include, but are not limited to the excess contribution, transfers and rollovers.	
9	Add Steps 7 and 8	
10	Subtract Step 9 from Step 5	
11	Divide Step 10 by Step 9	
12	Multiply Step 11 by Step 1  This is the net income (or loss) attributable to the contribution.	
13	Add Step 12 to Step 1  This is the total amount to be withdrawn to correct the excess contribution.	

