381. When may an account owner transfer or rollover funds into an HSA?

Funds may be transferred or rolled over from one HSA to another HSA or from an Archer MSA ([Q 387](http://pro.moss.nuco.com/taxfacts2015/tfins/p4-healthins/heamsas/arcmsa/Pages/0387-00-TF1.aspx)) to an HSA provided that an account holder effects the transfer within sixty days of receiving the distribution.[[1]](#footnote-1)

An HSA rollover may take place only once a year. The year is not a calendar year, but a rolling twelve month period beginning on the day when an account holder receives a distribution to be rolled over.[[2]](#footnote-2) Transfers of HSA amounts directly from one HSA trustee to another HSA trustee, known as a trustee-to-trustee transfer, are not subject to the limits under IRC Section 223(f)(5). There is no limit on the number of trustee-to-trustee transfers allowed during a year.[[3]](#footnote-3)

A participant in a health reimbursement arrangement (“HRA”) ([Q 330](http://pro.moss.nuco.com/taxfacts2015/tfins/p4-healthins/empprovheains/hras/Pages/0330-00-TF1.aspx)) or a health flexible spending arrangement (“health FSA”) ([Q 3515](http://pro.moss.nuco.com/taxfacts2015/tfempb/p3-comp/ingen/Pages/3515-00-TF1.aspx)) may make a qualified HSA distribution on a one time per arrangement basis. A qualified HSA distribution is a transfer directly from an employer to an HSA of an employee to the extent the distribution does not exceed the lesser of the balance in the arrangement on September 21, 2006, or the date of distribution. A qualified HSA distribution shall be treated as a rollover contribution under IRC Section 223(f)(5), which means that it does not count toward the annual HSA contribution limit.[[4]](#footnote-4)

If an employee fails to be an eligible individual ([Q 370](http://pro.moss.nuco.com/taxfacts2015/tfins/p4-healthins/heamsas/ingen/Pages/0370-00-TF1.aspx)) at any time during a taxable year following a qualified HSA distribution, the employee must include in his or her gross income the aggregate amount of all qualified HSA distributions. The amount includable in gross income is also subject to a 10 percent penalty tax.[[5]](#footnote-5)

General purpose health FSA coverage during a grace period, after the end of a plan year, will be disregarded in determining an individual’s eligibility to contribute to an HSA if the individual makes a qualified HSA distribution of the entire balance. Health FSA coverage during a plan year is not disregarded, even if a health FSA balance is reduced to zero. An individual who begins HDHP coverage ([Q 371](http://pro.moss.nuco.com/taxfacts2015/tfins/p4-healthins/heamsas/ingen/Pages/0371-00-tf1.aspx)) after the first day of the month is not an eligible individual until the first day of the following month.

The timing of qualified HSA distributions therefore is critical for employees covered by general-purpose (non-high-deductible) health FSAs or HRAs. As such:[[6]](#footnote-6)

(1) An employee only should make a qualified HSA distribution if he or she has been covered by an HDHP since the first day of the month;

(2) An employee must rollover general purpose health FSA balances during the grace period after the end of the plan year, not during the plan year, and, of course, he or she must not be covered by a general purpose health FSA during the new year; and

(3) An employee must rollover the entire balance in an HRA or a health FSA to an HSA. If a balance remains in an HRA at the end of a plan year or in a health FSA at the end of the grace period, the employee will not be an HSA-eligible individual.

Beginning in 2007, a taxpayer may, once in his or her lifetime, make a qualified HSA funding distribution

381.01 What are the rules regarding moving money from an IRA to an HSA?

A qualified HSA funding distribution is a trustee-to-trustee transfer from an IRA to an HSA in an amount that does not exceed the annual HSA contribution limitation for the taxpayer ([Q 372](http://pro.moss.nuco.com/taxfacts2015/tfins/p4-healthins/heamsas/contr/Pages/0372-00-tf1.aspx)). If a taxpayer has self-only coverage under an HDHP at the time of the transfer, but at a later date during the same taxable year obtains family coverage under an HDHP, the taxpayer may make an additional qualified HSA funding distribution in an amount not exceeding the additional annual contribution for which the taxpayer has become eligible.[[7]](#footnote-7)

If a taxpayer fails to be an eligible individual at any time during a taxable year following a qualified HSA funding distribution, the taxpayer must include in his or her gross income the aggregate amount of all qualified HSA funding distributions. The amount includable in gross income also is subject to a 10 percent penalty tax.[[8]](#footnote-8)

1. . IRC Secs. 220(f)(5)(A), 223(f)(5)(A). [↑](#footnote-ref-1)
2. . IRC Secs. 220(f)(5)(B), 223(f)(5)(B). [↑](#footnote-ref-2)
3. . Notice 2004-50, 2004-2 CB 196, A-56. [↑](#footnote-ref-3)
4. . IRC Sec. 106(e); Notice 2008-51, 2008-1 CB 1163. [↑](#footnote-ref-4)
5. . IRC Sec. 106(e); Notice 2008-51, 2008-1 CB 1163. [↑](#footnote-ref-5)
6. . Notice 2007-22, 2007-1 CB 670. [↑](#footnote-ref-6)
7. . IRC Sec. 408(d)(9). [↑](#footnote-ref-7)
8. . IRC Sec. 408(d)(9)(D). [↑](#footnote-ref-8)