385. Are employer contributions to a Health Savings Account (HSA) on behalf of an employee subject to withholding?

HSA contributions made to or for the benefit of an employee, which it is reasonable to believe will be excludable from the employee’s income under IRC Section 106(d), dealing with contributions to HSAs, are not subject to income tax withholding.[[1]](#footnote-1)Interestingly, withholding also does not occur at the time of distribution from an HSA. HSA custodians and trustees do not withhold for income tax or penalties for HSA distributions. The IRS Form 1099-SA does not provide a reporting box for federal or state withholding. The IRS is apparently operating under the assumption that most HSA distributions will be used for eligible medical expenses and therefore tax-free.

1. . IRC Sec. 3401(a)(22); Notice 2004-2, 2004-1 CB 269, A-19. [↑](#footnote-ref-1)