

THE TAX RELIEF AND HEALTH CARE ACT OF 2006

President Signs New HSA Legislation

On December 20, President Bush signed into law the Tax Relief and Health Care Act of 2006. The bill includes provisions that will enhance Health Savings Accounts (HSAs), making them a more attractive option for many employers and employees.

HIGHLIGHTS OF THE MAIN HSA PROVISIONS INCLUDED IN THE ACT:

- **Full-year Contributions for Mid-year Enrollees** / Taxpayers who enroll in a HSA-eligible health plan mid-year will now be allowed to make a full-year contribution to their HSA.
- **Health Plan Deductibles No Longer Impact HSA Contribution Maximums** / HSA participants will be allowed to contribute the full statutory maximums (for 2007, \$2850 for single coverage and \$5650 for families), regardless of high deductibles. Previously, HSA contributions were limited to the lesser of the deductible or the statutory maximum.
- **One-time, Tax-free Transfer of Health Flexible Spending Accounts (FSAs) or Health Reimbursement Arrangements (HRAs) Balances to an HSA** / FSA participants will also be allowed to contribute to an HSA during the Health FSA grace period if they have no funds remaining at the end of the plan year.
- **One-time Trustee-to-trustee Transfer From an Individual Retirement Account (IRA) to an HSA** / Transfers would be subject to annual HSA contribution limits.
- **Greater HSA Employer Contributions for Non-Highly Compensated Employees (NHCEs)** / Under comparability rules, employers will now be allowed to make greater contributions to lower-paid employees. Employers must still make comparable contributions to all NHCEs, but they will be tested separately from HCEs.
- **Earlier Reporting of Cost of Living Adjustments to Deductibles and Contribution Requirements** / The U.S. Treasury Department will be required to release indexed HSA deductible and contribution amounts by June 1 of each year.

These are just highlights of the bill. More information will become available once guidance and regulations are released by the IRS. To read a press release from The U.S. Department of the Treasury with more details about the bill, please visit www.treas.gov/press/releases/hp209.htm.

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