

Archer Medical Savings Accounts

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I have been asked to give a brief explanation of the Archer Medical Savings Accounts (MSAs). MSAs are tax-exempt trust or custodial accounts that you set up (typically with a bank or an insurance company), in which you can save money *exclusively* for future medical expenses. This account *must* be used in conjunction with a high-deductible health plan.

There are several benefits to be derived from an Archer MSA:

☛ The interest or earnings on the assets in the Archer MSA are tax-free.

☛ You can claim a tax deduction for contributions you make, even if you do not itemize your deductions on Form 1040.

☛ The contributions remain in your Archer MSA from year to year, until you use them.

☛ An Archer MSA is “portable,” that is, it stays with you if you change employment or leave the work force entirely.

In order to qualify for an Archer MSA, you must be either:

☛ An employee (or spouse of an employee) of a small employer. A small employer is generally an employer who had an average of 50 or fewer employees during either of the last two calendar years. The employer must maintain an individual or family high-deductible health plan for you (or your spouse).

☛ A self-employed person (or the spouse of a self-employed person) who maintains an individual or family high-deductible health plan.

☛ In addition, you can have no other health insurance or Medicare coverage.

☛ You must be an eligible individual on the first day of a given month to get an Archer MSA deduction for that month.

Note that if another taxpayer is entitled to claim an exemption for you, you cannot claim a deduction for an Archer MSA contribution. This is true even if the other person does not actually claim your exemption.

Once established, your employer may decide to make contributions to an Archer MSA for you. You do not pay tax on these contributions. If your employer does not make contributions to your Archer MSA, you can make your own contributions to your Archer MSA and *deduct these amounts on your tax return without having to itemize your deductions on Schedule A.*

There are limits to the amounts that can be contributed to your Archer MSA. You can contribute up to 75% of the amount of your annual health plan deductible (65% if you have a self-only plan) to your Archer MSA. You must have the insurance all year to contribute the full amount. For each full month you did not have a high-deductible health plan, you must reduce the amount you can contribute by one-twelfth.

For a complete explanation of the qualifications for an Archer MSA and a description of the high-deductible health plan limits, see IRS Publication 969, Medical Savings Accounts (MSAs). 



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