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Health costs and the income tax

A new tax shelter, the Health Savings Account, will be available in 2004 for people with high-deductible health plans. The law defines high deductible as at least $1,000 for an individual plan, $2,000 for a family plan. How the tax law treats health care costs:

	Health Savings Accounts	**Health reimbursement**	**Flex accounts**	**Medical-dental expense tax deduction**
Who qualifies?	All taxpayers under age 65 covered by a high-deductible health plan.	Workers whose employers provide it.	Workers whose employers provide it.	Taxpayers who itemize.
Purpose	Promote use of high-deductible insurance plans by sheltering income used to pay health care costs.	Employer-funded program to reimburse workers for out-of-pocket costs of a high-deductible health plan. May cover part or all of plan's deductibles.	Worker-funded accounts used to pay out-of-pocket medical and dental costs, including over-the-counter drugs.	Limits tax liability for those with high medical expenses relative to their income.
Tax benefits	Tax-free contributions and withdrawals when used for health expenses. Non-health withdrawals after age 65 are taxed but not penalized.	Plan costs are tax deductions for employer. Reimbursement to worker is not treated as income.	Contributions, which are made from payroll withholding, are exempt from income tax.	Income tax deduction for insurance premiums and out-of-pocket medical and dental costs.
Comments	Annual contribution limits: Maximum of $2,250 to meet an individual health plan's deductible; $4,500 for family plan. Replaces Archer MSAs. Effective Jan. 1.	Employer may keep the money when a worker quits or retires.	Worker forfeits unspent money at the end of each year. No interest paid on account balances.	Only qualifying expenses in excess of 7.5% of adjusted gross income may be deducted.

Sources: IRS, CCH, HealthcareShopper.com