



2021 HSA Excess Contributions – Have you Deposited Too Much?

Steve has the opposite problem. Unlike Linda, he over-contributed to his HSA in 2021. He didn't carefully monitor the amounts he deposited into his account that were in addition to the pre-tax contributions he made through his company's payroll.

Steve knows that any amount deposited into his HSA that is above the annual statutory limit is considered by the IRS to be an excess contribution which is not tax deductible.

For each year that the excess contribution stays in Steve's HSA, it is subject to an annual excise tax. What can Steve do to avoid paying this additional tax?

1. Before the 2021 federal tax income filing deadline*, Steve will need to withdraw the excess funds from his HSA. He will also have to withdraw any income attributable to the excess contribution, such as any interest earned, and include it as "Other income" in his 2021 tax return. Sterling would be happy to work with Steve to help him take a corrective distribution of the excess amount.
2. If Steve has over-contributed to his HSA in previous years and has not yet withdrawn the amounts, he may be able to deduct those excess contributions. IRS Publication 969 (2020), <https://www.irs.gov/publications/p969> provides a formula that can help Steve determine how much of the excess contributions he made in previous years can be deducted for the current year.

Please note that the IRS treats the taxation of excess HSA contributions according to established rules. While Sterling is pleased to provide general information to help our HSA Accountholders understand the tax implications of excess HSA contributions, we want to emphasize that this is an individual income tax issue.

Sterling does not provide legal or tax advice and we suggest that you consult your tax preparer to discuss the most beneficial course of action in your particular case.

We strongly encourage Steve and all of our HSA Accountholders to log on regularly to their account at www.sterlingadministration.com and review their balances against the limits described above.

If, like Steve, you have exceeded the statutory contribution limit, please contact us immediately so that we may help you correct it.

You can reach us by phone at 1.800.617-4729, Option 4, or send us an email with your account number so that we can begin to review your account. In addition, a Sterling HSA representative is available for live help from 8 am to 5 pm Pacific Time.

*The IRS issued a News Release on January 10, 2022 which states as follows:

The filing deadline to submit 2021 tax returns or an extension to file and pay tax owed is Monday, April 18, 2022, for most taxpayers. By law, Washington, D.C., holidays impact tax deadlines for everyone in the same way federal holidays do. The due date is April 18, instead of April 15, because of the Emancipation Day holiday in the District of Columbia for everyone except taxpayers who live in Maine or Massachusetts. Taxpayers in Maine or Massachusetts have until April 19, 2022, to file their returns due to the Patriots' Day holiday in those states.