




# HEALTH SAVINGS ACCOUNT STRATEGY STRATEGY GUIDE

*How to reduce taxable income today while building tax-free wealth for future medical expenses*



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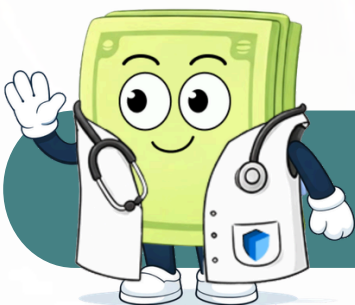


# Executive Summary

A Health Savings Account (HSA) is one of the most powerful and underutilized tax strategies available to individuals and business owners. When properly structured, it offers a rare triple tax advantage: contributions reduce taxable income, growth compounds tax-free, and qualified withdrawals are never taxed.

For eligible taxpayers covered by a High-Deductible Health Plan (HDHP), an HSA functions as both a short-term medical expense tool and a long-term tax-advantaged investment vehicle. Used strategically, it can lower annual tax liability while building a dedicated pool of tax-free healthcare capital.

This guide explains eligibility requirements, contribution limits, compliance rules, and how to integrate an HSA into a broader tax and wealth planning strategy.



I'm Doc, here to guide you along the way and show you how TaxMD™ can help put these strategies into action.

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# Who This Guide Is For

This guide is designed for:

- Individuals covered by High Deductible Health Plans
- Self-employed taxpayers
- Business owners offering HDHP coverage
- High-income earners seeking additional tax-advantaged savings
- Families planning for long-term healthcare costs



TaxMD™ was built to help all of you see how an HSA can cover medical expenses, grow tax-free, and work alongside your other tax and retirement strategies tailored to your overall tax picture.

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# What Is a Health Savings Account

A Health Savings Account is a tax-advantaged savings account authorized under IRC §223. It allows eligible individuals to contribute funds that:

- Reduce taxable income
- Grow tax-free
- Remain tax-free when used for qualified medical expenses

Unlike Flexible Spending Accounts, HSA funds do not expire annually. Balances roll forward indefinitely and may be invested for long-term growth.



Using your real numbers, TaxMD™ shows you whether an HSA will truly lower your taxes and strengthen your long-term wealth strategy.

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# The Triple Tax Advantage

## 1. Tax-Deductible Contributions

Contributions reduce taxable income. If made through payroll, they are pre-tax. If made directly, they qualify as an above-the-line deduction on your individual tax return.

## 2. Tax-Free Growth

Interest, dividends, and investment gains inside the HSA are not taxed.

## 3. Tax-Free Withdrawals

Withdrawals for qualified medical expenses are tax-free at the federal level.

This combination makes the HSA one of the most tax-efficient accounts available.

## Example

John is single and covered by an HDHP in 2025. He contributes \$4,300 to his HSA.

If John is in a 22% federal tax bracket:

- Taxable income is reduced by \$4,300
- Federal tax savings ≈ \$946
- Any investment growth inside the account is tax-free

If John later withdraws funds to pay for qualified medical expenses, the withdrawal is also tax-free.

# Eligibility Requirements

## High Deductible Health Plan (HDHP)

You must be covered by an IRS-qualified HDHP.

2025 thresholds:

- Self-only coverage
  - Minimum deductible: \$1,650
  - Maximum out-of-pocket: \$8,300
- Family coverage
  - Minimum deductible: \$3,300
  - Maximum out-of-pocket: \$16,600

These thresholds are adjusted annually by the IRS.

## Other Requirements

- You cannot be enrolled in Medicare (Parts A or B).
- You cannot be claimed as a dependent on another taxpayer's return.
- You cannot have other disqualifying coverage, such as a traditional PPO or general-purpose FSA that pays expenses before the HDHP deductible is met.
- The HSA must be established in your name.

## Annual Contribution Limits

2025 limits:

- \$4,300 for self-only coverage
- \$8,550 for family coverage
- Additional \$1,000 catch-up contribution if age 55 or older

Contributions may be made up until the tax filing deadline (generally April 15 of the following year).

Spouses with separate HSAs may each contribute, subject to overall family limits.

# How It Applies to You

## **For Everyone**

An HSA reduces taxable income while creating a dedicated fund for medical expenses. Even if funds are not used immediately, they roll forward and continue to grow.

## **For High-Income Earners**

Maximizing HSA contributions:

- Lowers taxable income in higher brackets
- Provides additional tax-advantaged savings beyond retirement accounts
- Allows long-term tax-free compounding

For disciplined savers, the HSA can function as a supplemental retirement healthcare account.

# Qualified Medical Expenses

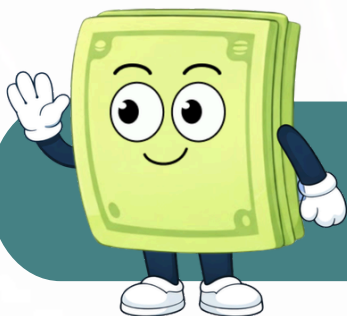
Withdrawals must be used for qualified medical expenses as defined under IRC §223 and IRS Publication 502, including:

- Deductibles
- Copayments
- Prescriptions
- Dental and vision expenses

Nonqualified withdrawals are subject to income tax plus a 20% penalty. After age 65:

- The 20% penalty no longer applies
- Non-medical withdrawals are taxed as ordinary income

This effectively turns the HSA into a supplemental retirement account after age 65.



Login to the TaxMD™ workspace to see how qualified medical expenses, penalties, and even post-65 withdrawals could impact your taxes and retirement strategy, using your real numbers.

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# Key Risks and Compliance Considerations

## Eligibility Risk

Loss of HDHP status or enrollment in Medicare disqualifies future contributions.

## Contribution Limits

Excess contributions trigger penalties unless corrected timely.

## Documentation Requirements

Maintain records of:

- Contributions
- Investment activity
- Medical expense receipts
- Distributions

You are not required to reimburse yourself immediately. Qualified expenses can be reimbursed in future years if properly documented.

## Nonqualified Withdrawals

Withdrawals for nonqualified purposes before age 65 trigger income tax plus a 20% penalty.

# Strategic Planning Considerations

## Invest the HSA

Many HSA providers allow funds above a threshold to be invested in mutual funds or ETFs. Long-term investment can significantly increase tax-free growth potential.

## Defer Reimbursement

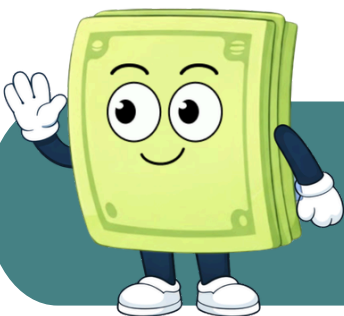
Some taxpayers pay medical expenses out-of-pocket and allow HSA funds to grow. They reimburse themselves years later using retained receipts.

## Coordinate with Retirement Planning

An HSA complements:

- 401(k) contributions
- IRA contributions
- Roth strategies

Unlike retirement accounts, HSA withdrawals for medical expenses remain tax-free at any age.



Inside TaxMD™, I'll show you how investing your HSA, deferring reimbursements, and coordinating it with your 401(k), IRA, and Roth strategies can turn it into one of the most powerful tax-free retirement tools available

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# Estimated One-Year Savings

If you contribute \$8,550 (family coverage) and are in a 30% combined federal and state tax bracket:

- Immediate tax savings ≈ \$2,565
- Additional payroll tax savings if contributions are made pre-tax through payroll

Long-term savings compound through tax-free investment growth.

## Assumptions

- You are covered by a qualified HDHP
- Contributions remain within IRS limits
- Withdrawals are used for qualified medical expenses
- Proper documentation is maintained

## Wealth and Estate Planning Considerations

- Name a beneficiary
- If spouse is beneficiary, the HSA transfers tax-free and continues as their own
- If non-spouse beneficiary, the account becomes taxable in the year of death
- Proper beneficiary planning preserves tax efficiency.

# Next Step Checklist

## Immediate (Next 7 Days)

- Confirm HDHP qualification
- Review current year contribution limits
- Evaluate HSA provider options

## Implementation (Days 8–30)

- Open HSA account
- Fund contributions
- Establish documentation system

## Ongoing (Annually)

- Maximize annual contributions
- Monitor investment performance
- Track qualified medical expenses
- Review beneficiary designation



Need a detailed tracker? Login to your TMD™ workspace to track your progress, and see the tax savings from each strategy.

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Tax Engine



#AVATAR 2  
Business Owner



Entity Structuring



#AVATAR 1  
Real State Investor



#AVATAR 5  
Retiree



#AVATAR 6  
W-2 Employee



#AVATAR 3  
Side Hustler



Event Driven Planning



# How TaxMD™ Helps You Optimize HSA Strategy

TaxMD™ allows you to:

- Model tax savings from HSA contributions
- Integrate HSA planning with retirement and income strategies
- Monitor contribution limits
- Evaluate investment growth scenarios

An HSA is not just a medical savings account. When used strategically, it is a long-term tax efficiency tool.



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