

---

## Health Reimbursement Arrangements (HRAs)

A health reimbursement arrangement (HRA) must be funded solely by an employer. The contribution cannot be paid through a voluntary salary reduction agreement on the part of an employee. Employees are reimbursed tax free for qualified medical expenses up to a maximum dollar amount for a coverage period. An HRA may be offered with other health plans, including FSAs.

**Note.** Unlike HSAs or Archer MSAs which must be reported on Form 1040 or Form 1040NR, there are no reporting requirements for HRAs on your income tax return.

For information on the interaction between an HRA and an HSA, see [Other employee health plans](#) under *Qualifying for an HSA*, earlier.

**What are the benefits of an HRA?** You may enjoy several benefits from having an HRA.

- Contributions made by your employer can be excluded from your gross income.
- Reimbursements may be tax free if you pay qualified medical expenses. See [Qualified medical expenses](#), later.
- Any unused amounts in the HRA can be carried forward for reimbursements in later years.

### Qualifying for an HRA

HRAs are employer-established benefit plans. These may be offered in conjunction with other employer-provided health benefits. Employers have complete flexibility to offer various combinations of benefits in designing their plan. You do not have to be covered under any other health care plan to participate.

Self-employed persons are not eligible for an HRA.



*Certain limitations may apply if you are a highly compensated participant.*

### Contributions to an HRA

HRAs are funded solely through employer contributions and may not be funded through employee salary deferrals under a cafeteria plan. These contributions are not included in the employee's income. You do not pay federal income taxes or employment taxes on amounts your employer contributes to the HRA.

### Amount of Contribution

There is no limit on the amount of money your employer can contribute to the accounts. Additionally, the maximum reimbursement amount credited under the HRA in the future may be increased or decreased by amounts not previously used. See [Balance in an HRA](#), later.

## Distributions From an HRA

Generally, distributions from an HRA must be paid to reimburse you for qualified medical expenses you have incurred. The expense must have been incurred on or after the date you are enrolled in the HRA.

Debit cards, credit cards, and stored value cards given to you by your employer can be used to reimburse participants in an HRA. If the use of these cards meets certain substantiation methods, you may not have to provide additional information to the HRA. For information on these methods, see Revenue Ruling 2003-43 on page 935 of Internal Revenue Bulletin (IRB) 2003-21 at [www.irs.gov/pub/irs-irbs/irb03-21.pdf](http://www.irs.gov/pub/irs-irbs/irb03-21.pdf), Notice 2006-69, 2006-31 I.R.B. 107 available at [www.irs.gov/irb/2006-31\\_IRB/ar10.html](http://www.irs.gov/irb/2006-31_IRB/ar10.html), and Notice 2007-2, 2007-2 I.R.B. 254 available at [www.irs.gov/irb/2007-2\\_IRB/ar09.html](http://www.irs.gov/irb/2007-2_IRB/ar09.html).

If any distribution is, or can be, made for other than the reimbursement of qualified medical expenses, any distribution (including reimbursement of qualified medical expenses) made in the current tax year is included in gross income. For example, if an unused reimbursement is payable to you in cash at the end of the year, or upon termination of your employment, any distribution from the HRA is included in your income. This also applies if any unused amount upon your death is payable in cash to your beneficiary or estate, or if the HRA provides an option for you to transfer any unused reimbursement at the end of the year to a retirement plan. However, see [Qualified HSA distribution](#), later.

If the plan permits amounts to be paid as medical benefits to a designated beneficiary (other than the employee's spouse or dependents), any distribution from the HRA is included in income.

Reimbursements under an HRA can be made to the following persons.

1. Current and former employees.
2. Spouses and dependents of those employees.
3. Any person you could have claimed as a dependent on your return except that:
  - a. The person filed a joint return,
  - b. The person had gross income of \$3,800 or more, or
  - c. You, or your spouse if filing jointly, could be claimed as a dependent on someone else's 2012 return.
4. Your child under age 27 at the end of your tax year.
5. Spouses and dependents of deceased employees.



*For this purpose, a child of parents that are divorced, separated, or living apart for the last 6 months of the calendar year is treated as the dependent of both parents whether or not the custodial parent releases the claim to the child's exemption.*

**Qualified medical expenses.** Qualified medical expenses are those specified in the plan that would generally qualify for the medical and dental expenses deduction. These are explained in Publication 502, Medical and Dental Expenses.

Also, non-prescription medicines (other than insulin) are not considered qualified medical expenses for HRA purposes. A medicine or drug will be a qualified medical expense for HRA purposes only if the medicine or drug:

1. Requires a prescription,
2. Is available without a prescription (an over-the-counter medicine or drug) and you get a prescription for it, or
3. Is insulin.

Qualified medical expenses from your HRA include the following.

- Amounts paid for health insurance premiums.
- Amounts paid for long-term care coverage.
- Amounts that are not covered under another health plan.

If you are covered under both an HRA and a health FSA, see Notice 2002-45, Part V, which is on page 93 of IRB 2002-28 at [www.irs.gov/pub/irs-irbs/irb02-28.pdf](http://www.irs.gov/pub/irs-irbs/irb02-28.pdf).



*You cannot deduct qualified medical expenses as an itemized deduction on Schedule A (Form 1040) that are equal to the distribution from the HRA.*

**Qualified HSA distribution.** This is a distribution made before January 1, 2012, from your HRA that is transferred to your HSA, discussed earlier.

For more information, see Notice 2007-22, 2007-10 I.R.B. 670 available at [www.irs.gov/irb/2007-10\\_IRB/ar10.html](http://www.irs.gov/irb/2007-10_IRB/ar10.html).

If you do not remain an eligible individual for HSA purposes during the testing period, the distribution is included in your income and is subject to a 10% additional tax. See [Qualified HSA distribution](#) under *Health Savings Accounts (HSAs)*, earlier.

## Balance in an HRA

Amounts that remain at the end of the year can generally be carried over to the next year. Your employer is not permitted to refund any part of the balance to you. These amounts may never be used for anything but reimbursements for qualified medical expenses. See [Qualified HSA distribution](#), earlier.

## Employer Participation

For an HRA to maintain tax-qualified status, employers must comply with certain requirements that apply to other accident and health plans. Chapters 1 and 2 of Publication 15-B, Employer's Tax Guide to Fringe Benefits, explain these requirements.

---

## How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

**Free help with your tax return.** Free help in preparing your return is available nationwide from IRS-certified volunteers. The Volunteer Income Tax Assistance (VITA) program is designed to help low-moderate income, elderly, disabled, and limited English proficient taxpayers. The Tax Counseling for the Elderly (TCE) program is designed to assist taxpayers age 60 and older with their tax returns. Most VITA and TCE sites offer free electronic filing and all volunteers will let you know about credits and deductions you may be entitled to claim. Some VITA and TCE sites provide taxpayers the opportunity to prepare their return with the assistance of an IRS-certified volunteer. To find the nearest VITA or TCE site, visit [IRS.gov](http://IRS.gov) or call 1-800-906-9887 or 1-800-829-1040.

As part of the TCE program, AARP offers the Tax-Aide counseling program. To find the nearest AARP Tax-Aide site, visit AARP's website at [www.aarp.org/money/taxaide](http://www.aarp.org/money/taxaide) or call 1-888-227-7669.

For more information on these programs, go to [IRS.gov](http://IRS.gov) and enter "VITA" in the search box.



**Internet.** You can access the IRS website at [IRS.gov](http://IRS.gov) 24 hours a day, 7 days a week to:

- *E-file* your return. Find out about commercial tax preparation and *e-file* services available free to eligible taxpayers.
- Check the status of your 2012 refund. Go to [IRS.gov](http://IRS.gov) and click on *Where's My Refund*. Information about your return will generally be available within 24 hours after the IRS receives your e-filed return, or 4 weeks after you mail your paper return. If you filed Form 8379 with your return, wait 14 weeks (11 weeks if you filed electronically). Have your 2012 tax return handy so you can provide your social security number, your filing status, and the exact whole dollar amount of your refund.
- *Where's My Refund?* has a new look this year! The tool will include a tracker that displays progress through three stages: (1) return received, (2) refund approved, and (3) refund sent. *Where's My Refund?* will provide an actual personalized refund date as soon as the IRS processes your tax return and approves your refund. So in a change from previous filing seasons, you won't get an estimated refund date right away. *Where's My Refund?* includes information for the most recent return filed in the current year and does not include information about amended returns.
- You can obtain a free transcript online at [IRS.gov](http://IRS.gov) by clicking on *Order a Return or Account Transcript* under "Tools." For a transcript by phone, call