Dolores Bischof: Thank you, Deborah. Jennifer Sicking is our next speaker. Her experience includes work in several industries, but her practice is heavily weighted in healthcare, computer technology and real estate. Jennifer's scope of services includes not only federal and state tax return preparation, but also an emphasis on wealth transfer strategies, physician practice management consulting, and software consulting.

Jennifer joined Ken Hughes & Associates in 2002 after working in public accounting for four years while attending the University of North Texas. In 2002, Jennifer graduated cum laude with a Master's of Science degree in Accounting with a specialization in entrepreneurship.

She passed the CPA exam on her first try while still in school and obtained her CPA license upon graduation. Jennifer obtained her Personal Financial Specialist credential from the American Institute of Certified Public Accountants, AICPA, in January 2009. She has been a QuickBooks Pro-Advisor since 2002.

Jennifer enjoys teaching and helps design and implement KHA's internal continuing education courses, as well as guest lecturing at the University of Texas at Arlington. Jennifer is also an alumnus of Leadership Lewisville and has served on her church's finance council as well as her son's elementary PTA.

She is a member of the AICPA and Texas Society of CPAs. Jennifer…

Jennifer Sicking: Thank you very much. I'm going to talk about the tax benefits that are related to health insurance. We're going to try to make it a little bit interesting because, as you know, tax can get a little bit dry.
The first thing I want to talk about is what most people who are employed - what affects them most--and that is their health insurance. If their employers offer health insurance and they're eligible for health insurance and they pay a portion of the premium for their health insurance, generally the premiums that are paid by the employee are tax free to you. They're deducted from your wages before you pay income tax.

So what that's called is a Section 125 Health Insurance Plan or what other people would refer to as a cafeteria plan. That is a big benefit for the employee and also the employer. So that is one way, that's the biggest way that people can have a tax benefit for the health insurance premiums that they pay.

Another tax benefit associated with health insurance is on itemized deductions--deduction for medical expenses. There's a lot of misconception out there on this topic. Generally the deduction for medical expenses is only something that is available for really dire circumstances.

First off you have to be able to itemize. Itemized deductions would have to exceed for 2009 the standard deduction. So if you're a single taxpayer, generally speaking that's $5700. If you're married, generally speaking it's $11,400.

So that's the first hurdle that you would have to jump over to be able to deduct medical expenses on your tax return. The second hurdle is that you'd have to exceed 7.5% of your adjusted gross income. So that is a big number. And generally what that means…and it of course it depends on how much money you make, but adjusted gross income generally means your wages, interest, dividends, you know. Those are the general items that you would report on [as] your income.
So it's a really big hurdle. And it doesn't really apply to a lot of people. But if you think that you might be eligible to take this deduction, I would encourage you to go to the IRS Website--[www.irs.gov](http://www.irs.gov)--and look up Publication 502 [http://www.irs.gov/pub/irs-pdf/p502.pdf]. That gives you a list of the medical and dental expenses that you could deduct, and it gives you a lot more detail about how to do that.

The third item that I'd like to talk about is the health insurance deduction. You can take a deduction on the front page of your tax return for health insurance if you're self-employed, you're a partner of a partnership, or you're a shareholder--a 2% or more shareholder of an S corporation.

What this…how this works is first of all you have to show a profit to get to take a deduction for your health insurance. Secondly the health insurance that you pay for must be a plan that's established under your trade or business. And the deduction cannot be more than your earned income from that trade or business.

In addition to that, you cannot be eligible to participate in a health plan subsidized by your employer or your spouse's employer. So it's pretty restrictive. There are a lot of benefits to it if you qualify.

The last item that I would like to discuss--which is the biggest item and I also think that it's underutilized--is what's called the health savings account [HSA] [See IRS Publication 969, Health Savings Accounts and Other Tax-Favored Health Plans]. What is a health savings account? It's a tax-advantaged account that you pair with [must be covered under] a high deductible health plan.

[Editor’s Note: According to IRS Publication 969, a health savings account is a tax-exempt trust or custodial account that you set up with a qualified HSA trustee to pay or reimburse certain medical expenses you incur. Publication 969 lists several benefits of HSAs.]
A lot of people these days are having to go to these high deductible health plans. And this HSA was established to help minimize the financial burdens that people are now having by using these high deductible health plans.

What it is is it's a savings account, kind of like an IRA is a savings account, where you put money back, you get a deduction on your tax return for that amount, and you can use that money for medical expenses.

If you don't use it all in that year, you don't lose it. It will be carried forward from year to year to year until you need it. And if you don't need it and upon retirement you've got some left over, you can use it for retirement. It's a really nice plan that has been established.

How do you qualify for it? First of all you have to be enrolled in a high deductible health plan. That means catastrophic health coverage. A high deductible health plan generally, you know, it'll pay benefits only after you satisfy a high annual deductible. The minimum [annual deductible] is $1150 for self-only coverage or $2300 for family coverage.

Some things can be covered by that though. Preventative care, routine physicals can be covered. After that you might still have copayments and you might have co-insurance until you reach your plan's annual out-of-pocket limit.

[In] a high deductible health plan, the limit for [the maximum annual deductible and other out-of-pocket expenses] cannot be more than $5800 for an individual or $11,600 for families. I know these are a lot of numbers thrown out there to you, and I'm going to give you a place where you can go and refer to this later on, because, like I said, it's pretty dry.

Another thing about health savings accounts is that there's only a limited amount that you can put in it a year. In 2009 it's going to be $3000 for self-only
coverage, and for family coverage it's $5950. If you are over the age of 55 [55 and older] they've allowed you [a] $1000 catch-up [contribution] that you can put in, in addition to those other numbers--$1000.

Now another thing that I need to clarify is who pays for this health savings account. Generally speaking, it could be the individual, but it can also be your employer. Your employer can pay on your behalf for a health savings account.

What else? In addition, if you want to know what type of items can be used with your health savings account, again if you would refer to that Publication 502 for medical and dental expenses, it will give you a list of those allowable expenses that you can use.

What happens though if you don't use it for those allowable expenses [is] that you could get quite a hickey there. It's a 10% penalty on withdrawals, plus you're going to have income taxes on that amount until you reach 65, and then there's no penalty.

But you've got to think about it this way. You've taken a [tax] deduction for that health savings account. If you take out of that and don't use those funds for their intended use, then that's why you're going to have to pay income tax, plus the 10% penalty. So just keep that in mind.

You can look online to see who has health savings accounts--who offers health savings accounts. Your insurance agent would be able to give you more information on it. I've heard from people that have health savings accounts [that] some of the plans will give you like a little debit card, and you can use that debit card, bring it with you to the doctor's office or wherever you need to go to use it.

And it makes the paperwork so easy, because it's not like a flexible spending account where, you know, you have to turn in that paperwork to your employer.
and get refunded for that money. It's just on this little credit card. It's very convenient. It's there, and I think people should look into it more than they have and try to take advantage of it.

Worst case scenario: you don't use the money, you have it for retirement. It's another way to save for retirement. So anyways, I'm a big fan of that. And that is all that I was going to talk about on tax benefits. Feel free to ask me any questions later though. Thank you.