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Laurie Brimmer
Internal Revenue Service
Room 6526
1111 Constitution Ave. NW
Washington, D.C. 20224

CC: Karen Brehmer and Alan Gregerson
IRS Stakeholder Liaison
Bloomington, MN

RE: Request for Comments: Form 1099-SA, Distributions from HSA, Archer MSA or
Medical Advantage MSA
Twin Cities Tax Professionals Discussion Group

Dear Ms Brimmer:

The Twin Cities Tax Professionals Discussion Group is submitting comments on Form 1099-SA, Distributions from HSA, Archer MSA or Medical Advantage MSA.

Organization:

A group of practitioners – Certified Professional Accounts, Enrolled Agents and unlicensed Tax Preparers formed the Twin Cities Tax Professionals Discussion Group August 2007. The purpose was to provide tax professionals in the Twin Cities area a forum to discuss tax issues and resolutions while maintaining high ethical standards. We currently have 140 tax professionals on our e-mailing list. We have Certified Public Accountants (CPAs), Enrolled Agents (EAs), Attorneys, unlicensed tax preparers as well as other tax professionals. Our members work in a variety of environments – sole practitioners, large CPA firms, franchise tax preparation services and everything in between. We meet the first Wednesday of every month. All tax professionals are welcome to join us. Bring a question to share and your willingness to participate.

The organization reached out to all members to comment on the Form 1099-SA. Below are our comments.

Comments

We appreciate the IRS asking for comments on the Form 1099-SA.

We suggest that this form include a separate box indicating the amount of Trustee to Trustee Rollovers.

- When a taxpayer rolls over HSA funds from one HSA to another it appears as a normal distribution, Distribution Code 1, on the 1099-SA along with all other distributions.
- The form would be more accurate if it had the ability to distinguish rollovers from other distributions.

We suggest that the HSA providers be required to list distributions for qualified medical expenses separately from non qualified distributions.

- At the present time there is no distinction between distributions for medical expenses and distributions for non medical expenses. If the HSA holder had to report the portion of the distributions that were for qualifying medical expenses to the HSA provider, that information could appear on the 1099-SA, therefore resulting in more accurate reporting and taxation.

We suggest that the Form 1099-SA be treated in the same manner as the 1099-Q.

- The 1099Q is only reportable as income IF distributions were taken in excess of qualifying education expenses. This could be done for the 1099-SA as well.
- We suggest that reporting distributions from HSA accounts are only reportable IF there were taxable distributions made.
- This will also reduce the number of CP2000 letters needed for taxpayers who fail to report their distributions and qualified medical expenses on Part II of Form 8889. In our experience this CP2000 notice does not result in additional tax as most taxpayers use their HSA appropriately and only on qualified expenses.

We suggest the IRS provide additional education to taxpayers on the importance of the form.

- Many taxpayers are not aware of their filing requirements for the HSA because other flex accounts do not require reporting on the tax return. In addition, most HSA providers deliver these forms electronically now, which many taxpayers do not know to download. In our opinion this results in tax returns missing the required Form 8889 and further administration time needed for both the taxpayer and the IRS.

IRS Request for Comments – summary:

(a) Whether the reporting of information is necessary for the proper performance of the functions of the agency, including whether the information shall have practical utility:

We suggest that this form and the reporting of distributions be required only if there is a taxable amount to be included in income.

(b) Ways to enhance the quality, utility, and clarity of the information to be collected:

We suggest that when trustee to trustee transfers occur the transfer amount be reported in a separate box. This will enhance reporting quality. Providing for a rollover code will also allow for more accurate reporting.

(c) Ways to minimize the burden of the collection of information on respondents, including through the use of automated collection techniques or other forms of information technology:

We suggest the HSA providers be required to collect data and report distributions used for non qualified expenses.

We suggest the IRS provide additional education to taxpayers on the importance of the form to prevent nonreporting.

Please contact us if you have any questions. We look forward to hearing from you.

Thank you for your help and time.

Sincerely,



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