

2001

Instructions for Forms 1099-MSA and 5498-MSA

Section references are to the Internal Revenue Code unless otherwise noted.

An Item To Note

In addition to these specific instructions, you should also use the **2001 General Instructions for Forms 1099, 1098, 5498, and W-2G**. Those general instructions include information about:

- Backup withholding
- Magnetic media and electronic reporting requirements
- Penalties
- When and where to file
- Taxpayer identification numbers
- Statements to recipients
- Corrected and void returns
- Other general topics

You can get the general instructions from the IRS's Internet Web Site at www.irs.gov or by calling 1-800-TAX-FORM (1-800-829-3676).

Specific Instructions for Form 1099-MSA

File **Form 1099-MSA**, Distributions From an MSA or Medicare+Choice MSA, to report distributions made from a medical savings account (MSA) or Medicare+Choice MSA (M+C MSA). The distribution may have been paid directly to a medical service provider or to the account holder.

Transfers. Do not report a trustee-to-trustee transfer from one MSA to another MSA or from one M+C MSA to another M+C MSA.

Death of account holder. If the account holder dies and the beneficiary is the spouse:

- An MSA becomes the spouse's MSA,
- The spouse may continue an M+C MSA, but no new contributions may be made to the account, and
- Distributions from an MSA or M+C MSA are taxed under the rules that apply to MSAs that are not M+C MSAs.

If the beneficiary is not the spouse or there is no named beneficiary, the account ceases to be an MSA or M+C MSA.

Distribution in year of death. If you learn of the account holder's death and make a final distribution to the beneficiary in the **year of death**, issue a final Form 1099-MSA and enter in:

- Box 1, the gross distribution;
- Box 3, code **4**; and
- Box 4, the fair market value (FMV) of the account on the date of death.

If the beneficiary is the estate, enter the name and taxpayer identification number (TIN) of the estate as the recipient's name and TIN on the form.

Distribution after year of death. If you learn of the death of the account holder and make a final distribution **after the year of death**, issue a final Form 1099-MSA in the year you learned of the death of the account holder. Enter in:

- Box 1, the gross distribution;

- Box 3, one of the following codes:
 - 1—if the beneficiary is the spouse,
 - 4—if the beneficiary is the estate, or
 - 6—if the beneficiary is not the spouse or estate;
- Box 4, the FMV of the account on the date of death.

Statements to recipients. If you are required to file Form 1099-MSA, you must provide a statement to the recipient. For more information about the requirement to furnish a Form 1099-MSA or acceptable substitute statement to recipients, see part **H** in the **2001 General Instructions for Forms 1099, 1098, 5498, and W-2G**.

Box 1—Gross distribution. Enter the total amount of the distribution. Include any earnings separately reported in box 2. You are not required to determine the taxable amount of a distribution.

Box 2—Earnings on excess contributions. Enter the total earnings distributed with any excess MSA contributions returned by the due date of the account holder's tax return. Include this amount in box 1. Report earnings on other distributions only in box 1. **Do not** report excess M+C MSA contributions returned to the Secretary of Health and Human Services or his or her representative.

Box 3—Distribution code. Enter the appropriate distribution code from the list below that shows the type of distribution.

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| <i>1—Normal distributions</i> | Use this code for normal distributions to the account holder and any direct payments to a medical service provider. Use this code if no other code applies. Also, see Distribution after year of death above. |
| <i>2—Excess contributions</i> | Use this code for distributions of excess MSA contributions. Do not use this code for excess M+C MSA contributions returned to the Secretary of Health and Human Services or his or her representative. |
| <i>3—Disability</i> | Use this code if you made distributions after the account holder was disabled (see section 72(m)(7)). |
| <i>4—Death distribution other than code 6</i> | Use this code for payments to a decedent's beneficiary, including an estate, in the year of death. Also use this code for payments to an estate after the year of death. Do not use with code 6. See Death of Account Holder above. |
| <i>5—Prohibited transaction</i> | |
| <i>6—Death distribution after year of death to a nonspouse beneficiary</i> | Use this code for payments to a decedent's nonspouse beneficiary, other than an estate, after the year of death. Do not use with code 4. |

Box 4—FMV on date of death. If the account holder died, enter the FMV of the account on the date of death. See **Death of Account Holder** above.

Box 5—Medicare+Choice MSA. Mark the box if this distribution was from an M+C MSA.

Specific Instructions for Form 5498-MSA

File **Form 5498-MSA**, MSA or Medicare+Choice MSA Information, with the IRS on or before May 31, 2002, for each person for whom you maintained a medical savings account (MSA) or Medicare+Choice MSA (M+C MSA) during 2001. You are required to file if you are the trustee or custodian of an MSA or M+C MSA.

For MSA contributions made between January 1 and April 15, 2002, you should obtain the participant's designation of the year for which the contributions are made.

Rollovers. You must report the receipt of a rollover from one MSA to another MSA in box 4.

Transfers. Do not report a trustee-to-trustee transfer from one MSA to another MSA or from one M+C MSA to another M+C MSA. For reporting purposes, contributions and rollovers do not include these transfers.

Total distribution, no contributions. Generally, if a total distribution was made from an MSA during the year and no contributions were made for that year, you need not file Form 5498-MSA nor furnish a statement to the participant to reflect that the fair market value (FMV) on December 31 was zero.

Distributions. Report distributions from MSAs, including a distribution of excess contributions, or distributions from M+C MSAs on **Form 1099-MSA**, Distributions From an MSA or Medicare+Choice MSA. See Page MSA-1.

Inherited MSAs. If the account holder dies and the beneficiary is the spouse:

- An MSA becomes the spouse's MSA,
- The spouse may continue an M+C MSA, but no new contributions may be made to the account, and
- Distributions from an MSA or M+C MSA are taxed under the rules that apply to MSAs that are not M+C MSAs.

If the beneficiary is not the spouse or there is no named beneficiary, the account ceases to be an MSA or M+C MSA. In the year an MSA or M+C MSA owner dies, generally you must file a Form 5498-MSA and furnish a statement for the decedent.

Statements to participants. If you are required to file Form 5498-MSA, you must provide a statement to the participant (generally Copy B) by May 31, 2002. You may, but you are not required to, provide participants with a statement of the December 31, 2001, value of the participant's account by January 31, 2002. For more information about statements to participants, see part **H** in the **2001 General Instructions for Forms 1099, 1098, 5498, and W-2G**.

Box 1—Employee or self-employed person's MSA contributions made in 2001 and 2002 for 2001. Enter the employee's or self-employed person's regular contributions to the MSA made in 2001 and through April 15, 2002, for 2001. Report gross contributions, including any excess contributions, even if the excess contributions were withdrawn.

Box 2—Total contributions made in 2001. Enter the total MSA contributions made in **2001** (employer, employee, or self-employed person). Include any contribution made in 2001 for 2000. You may, but you are not required to, report the total M+C MSA contributions the Secretary of Health and Human Services or his or her representative made in 2001.

Box 3—Total MSA contributions made in 2002 for 2001. Enter the total MSA contributions made in **2002 for 2001** (employer, employee, or self-employed person).

Box 4—Rollover contributions. Enter rollover contributions to the MSA received by you during 2001.

Box 5—Fair market value of MSA or M+C MSA. Enter the FMV of the MSA or M+C MSA on December 31.

Box 6—Medicare+Choice MSA. Mark this box if this is an M+C MSA.