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We provide a prompt, professional, personal one-on-one tax preparation service from the comfort of your home or office. We are competitively priced; in addition we offer a number of additional services as well as comprehensive information from our web site – <http://www.taxlogic.com>.

## **Archer Medical Savings Accounts & Medicare+Choice MSA**

Archer MSAs were created to help self-employed individuals and employees of certain small employers meet the medical cost of the account holder, the account holder's spouse, or dependents. A Medicare+Choice MSA is an Archer MSA designated by Medicare to be used solely to pay the qualified medical expenses of the account holder who is eligible for Medicare.

Both are "pilot projects" scheduled to end December 31, 2002. You do not need IRS approval to start your Archer MSA.

To qualify for an Archer MSA, you must be:

1. An employee (or the spouse of an employee) of a small employer. A small employer is generally an employer who had an average of 50 or few employees during either of the last 2 calendar years. The employer must maintain an individual or family high deductible health plan.
2. A self employed person (or the spouse of a self employed person) who maintains an individual or family HDHP

You can have no other health insurance or Medicare coverage except if the health plan only covers, accidents, disability, dental care, vision care, long-term care, benefits related to workers' compensation laws, a specific disease or illness, or a fixed amount per day of hospitalization.

An HDHP is a special health insurance policy that has a high deductible. You choose the policy you want to use as part of your Medicare+Choice plan. However, the policy must be approved by Medicare program. As of 12/20/01, there has been no HDHP plan has been approved by Medicare. Therefore, no Medicare+Choice MSAs have been established.

You may enjoy several benefits from having an Archer MSA.

1. The interest or other earnings on the assets in your Archer MSA are tax-free.
2. You can claim a tax deduction for contributions you make even if you do not itemize your deductions on Form 1040.
3. The contributions remain in your Archer MSA from year to year until you use them.

The following tables show the limits for annual deductibles and maximum out-of-pocket expenses for high deductible health plans for 2001. Limits may be changed in future years because of inflation adjustments.

<b>Type of Coverage</b>	<b>Minimum annual deductible</b>	<b>Maximum annual deductible</b>	<b>Maximum annual out-of-pocket expenses</b>
Self-only	\$1,600	\$2,400	\$3,200
Family	\$3,200	\$4,800	\$5,850

Your employer may decide to make contributions to an Archer MSA for you. You do not pay tax on these contributions. If your employer does not make contributions to your Archer MSA, you can make your own contributions to your Archer MSA and deduct these amounts on your tax return without itemizing deductions. Both you and your employer cannot make contributions to your Archer MSA in the same year. There are two limits on the amount you or your employer can contribute to your Archer MSA. One is based on the annual deductible of your HDHP. The other is based on your wages or compensation if you are an employee, or your net self-employment income if you are self-employed.

You can contribute up to 75% of the amount of your annual health plan deductible (65% if you have a self-only plan) to your Archer MSA. You must have the insurance all year to contribute the full amount.

You should receive Form 5498-MSA, MSA or Medicare+Choice MSA information for 2001, from the trustee showing the amount you (or your employer) contributed during the year.. You can make contributions to your Archer MSA until April 15 of the following year and deduct them on your Form 1040 for the preceding year to the extent your total contributions do not exceed your limitation.

You must generally pay a 6% excise tax on contributions you or your employer make to your Archer MSA that are greater than the limits. You may withdraw some or all of your excess contributions and not pay the excise tax on the amount withdrawn, if you withdraw these excess contributions by the due date, including extensions of your tax return. You must also withdraw any income earned on the withdrawn contributions and include the earnings in "other income" on your tax return for the year you withdraw the contributions and earnings.

You will generally pay medical expenses during the year without being reimbursed by your HDHP until you reach the annual deductible. When you pay medical expenses during the year that are not reimbursed by your HDHP you can ask the trustee of your Archer MSA to send you a distribution. When you use a distribution from your Archer MSA for qualified medical expenses, you do not pay tax on the distribution but you have to report the distribution on Form 8853.

Complete Form 8853 and attach it to your Form 1040 each year. You cannot file a 1040A or Form 1040EZ, if you have an Archer MSA. On the Form 8853 You report contributions (including employer contributions; figure your Archer MSA deduction; report distributions from Archer MSA or Medicare+Choice; report taxable payments from long-term care insurance contracts; report taxable accelerated death benefits from a life insurance policy

To get more information on the issue of the Archer medical savings accounts, please visit our site at <http://www.taxlogic.com>.