

QUALIFIED MEDICAL EXPENSES

The Internal Revenue Code (IRC) provides favorable tax treatment for reimbursements or payments made under employer-provided group health plans for qualified medical expenses of employees, spouses, and dependents. Generally, funds from health savings accounts (HSAs), health flexible spending arrangements (health FSAs), and health reimbursement arrangements (HRAs) can be used to pay for qualified medical expenses. Qualified medical expenses can include expenses that were not paid by the group health plan because they were subject to copays, deductibles, or coinsurances. These amounts are also known as “otherwise unreimbursed medical expenses.” Tax-advantaged accounts that reimburse expenses other than qualified medical expenses risk losing their preferred tax treatment status and could subject account holders to additional tax consequences.

For further information about differences between HSAs, health FSAs, and HRAs, see the PPI publication [Quick Reference Chart: HSAs, Health FSAs, and Traditional HRAs](#).

Generally, HSA, health FSA, and HRA funds can be used to pay for “qualified medical expenses” as defined in the Internal Revenue Code.

QUALIFIED MEDICAL EXPENSES OVERVIEW

Qualified medical expenses are defined in the IRC as those primarily related to the “diagnosis, cure, mitigation, treatment, or prevention of disease, or treatments affecting any part or function of the body.” These expenses encompass payments for medical services provided by practitioners as well as the costs of medications, equipment, supplies, and diagnostic devices necessary for these purposes. Qualified medical expenses must primarily prevent or alleviate a physical or mental defect or illness. Expenses that benefit an individual’s general health and wellbeing or are incurred for cosmetic reasons (e.g., facial filler injections, laser hair removal, liposuction) are not considered qualified medical expenses unless they address a deformity from a “congenital abnormality, injury, or disease.” A qualified medical expense must meaningfully promote the proper function of the body or prevent or treat illness or disease.

In some instances, it can be challenging to determine whether an expense is medical in nature or for general health and wellbeing. While some expenses have clear medical purposes (e.g., a cast for a broken bone), others could be for either personal or medical purposes (e.g., massage therapy). Dual-purpose expenses, generally, require additional scrutiny by a plan administrator.

According to guidance, dual-purpose expenses will not be considered for medical care unless they would not have been incurred “but for” a medical condition. The IRS has outlined factors to help individuals determine if dual-purpose expenses are primarily for medical care. These factors include a medical practitioner’s diagnosis and recommendation, the employee’s motive (e.g., the individual is motivated to incur the expense for a medical purpose), the effectiveness of the treatment, and whether the expense would have been incurred without the medical condition. Dual-purpose expenses are reimbursable only if they are incurred due to a medical condition (e.g., health club dues are not reimbursable if the individual was a member before a medical diagnosis).

**Our
Observation:**

Note that employers can limit the types of expenses that are reimbursable from a health FSA or HRA, provided such limitations are described in plan documentation. Doing this can reduce the analysis and follow-up required from an administrator to ensure that the expense is truly medical in nature.

Substantiation of Medical Expenses

Before an expense can be reimbursed under a group health plan, health FSA, or HRA, an administrator must ensure that the expense meets the requirements of the tax code, including determining whether it qualifies as a medical expense (described above), was incurred during the period of plan coverage, and was permitted under the terms of the plan. Group health plans can be self-administered by the plan sponsor, but plan sponsors typically engage a third-party administrator to substantiate and adjudicate claims on the plan's behalf. Additionally, because health FSA and HRA claims are subject to ERISA's claims and appeals process, it is important for both plan sponsors and plan administrators to understand how qualified medical expenses are defined and processed.

In contrast to health FSAs and HRAs, HSA distributions are self-adjudicated by the individual account holder (e.g., the employee), who must report receipt of any taxable HSA distributions to the IRS. HSA participants should therefore ensure that they understand what constitutes a qualified medical expense and should routinely save substantiating receipts.

Medical Expenses Payable from an HSA, Health FSA, or HRA

The following list, created with the aid of IRS Publication 502, [Medical and Dental Expenses](#), in addition to other IRS guidance, provides a sampling of qualified medical expenses that can be paid or reimbursed under an HSA, a health FSA, or an HRA. The list is provided only as a reference and is not meant to be comprehensive. Other qualified medical expenses not on this list may also be covered. Employers, administrators, and individuals (for purposes of HSAs) should consult with a tax advisor for more specific information about qualified medical expenses that may be difficult to determine.

**Our
Observation:**

Publication 502 lists expenses considered "qualified" under the IRC. It is a valuable resource for understanding what qualifies as a medical expense. While it is designed to help individual taxpayers calculate their itemized deductions for medical and dental expenses on their personal tax returns, it also provides clear definitions and examples of qualified medical expenses. Although it may influence determinations of whether an expense requested for reimbursement under an HSA, a health FSA, or an HRA qualifies as a medical expense, it should be used with caution. The publication may not reflect all the rules applicable to these tax-advantaged accounts in general or to any specific plan limitations adopted by a plan sponsor. For example, some expenses listed in the publication (like insurance premiums) may or may not be reimbursable under the tax-advantaged arrangement.

Sample list of medical expenses that can be paid from an HSA, health FSA, or HRA:

- Acupuncture
- Alcohol and drug treatment
- Ambulance costs
- Anesthesia
- Artificial limbs and teeth
- Automobile modifications for people with disabilities
- Bandages
- Birth control pills
- Braille books and magazines
- Chiropractic care
- Christian Science practitioners
- Contact lenses and solutions
- Copays, deductibles, and coinsurance
- Corrective eye surgery
- COVID-19-related masks, hand sanitizer, and sanitizing wipes
- Crutches
- Dental fees, including exams and cleanings
- Dental implants
- Diagnostic tests
- Eye examinations

- Eyeglasses, including prescription sunglasses and reading glasses
- Fertility enhancement
- Guide dogs (purchase, training, and maintenance)
- Hearing aids and batteries
- Hospital services
- Inpatient therapy
- Insulin injections
- Laboratory fees
- Menstrual products
- Mental/behavioral health treatment
- Nursing care
- Obstetrical expenses
- Orthodontic treatment (restrictions apply)
- Oxygen and equipment
- Periodontal fees
- Prescription drugs
- Psychiatric care
- Smoking-cessation programs
- Telephone for people with hearing or speech impairments
- Transportation for medical care
- Vaccinations
- Walkers
- Weight loss treatments (restrictions apply)
- Wheelchairs
- X-rays

Sample list of over-the-counter (OTC) purchases that can be paid from an HSA, health FSA, or HRA, even without a prescription:

- Acid controllers
- Allergy and sinus
- Antibiotic products
- Anti-diarrheals
- Anti-fungal
- Anti-gas
- Anti-itch and insect bite
- Antiparasitic treatments
- Baby rash ointments/creams
- Cold sore remedies
- Cough, cold, and flu
- COVID-19 antigen test kits
- Digestive aids
- Hemorrhoidal preps
- Laxatives
- Motion sickness
- Pain relief
- Respiratory treatments
- Sleep aids and sedatives
- Stomach remedies

Generally, HSAs (but not health FSAs or most HRAs) can be used to pay for the following insurance premiums:

- COBRA continuation premiums
- Health insurance premiums while unemployed
- Long-term care insurance premiums (restrictions apply)
- Medicare premiums for Part A, B, or D for individuals age 65 and older (restrictions apply)

Sample list of items that generally are NOT covered under an HSA, health FSA, or HRA:

- Cosmetic surgery and procedures
- Diaper services
- Domestic help fees (for nonmedical services)
- Electrolysis (laser hair removal)
- Funeral expenses
- Health insurance premiums (with certain exceptions)
- Homeopathic items
- Illegal operations and treatments
- Liposuction
- Marriage counseling
- Maternity clothes
- Medigap premiums
- Personal use items
- Physical or massage therapy for general health
- Swimming and dancing lessons, even if recommended by a doctor
- Teeth whitening

RESOURCES

[SIGIS Eligible Product List Criteria](#)

[IRS Publication 502, Medical and Dental Expenses](#)

[IRS Announcement 2021-7](#)

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