



Department  
of the  
Treasury

Internal  
Revenue  
Service

# Your Federal Income Tax

For Individuals

Publication 17

Catalog Number 10311G

For use in preparing

**2012** Returns

# TAX GUIDE 2012



## FOR INDIVIDUALS

Get forms and other information faster and easier by:  
Internet [IRS.gov](http://IRS.gov)

Archer MSAs and Long-Term Care Insurance Contracts. File the form with your return.

**Health flexible spending arrangement (health FSA).** If your employer provides a health FSA that qualifies as an accident or health plan, the amount of your salary reduction, and reimbursements of your medical care expenses, in most cases, are not included in your income.

**Health reimbursement arrangement (HRA).** If your employer provides an HRA that qualifies as an accident or health plan, coverage and reimbursements of your medical care expenses generally are not included in your income.

**Health savings accounts (HSA).** If you are an eligible individual, you and any other person, including your employer or a family member, can make contributions to your HSA. Contributions, other than employer contributions, are deductible on your return whether or not you itemize deductions. Contributions made by your employer are not included in your income. Distributions from your HSA that are used to pay qualified medical expenses are not included in your income. Distributions not used for qualified medical expenses are included in your income. See Publication 969 for the requirements of an HSA.

Contributions by a partnership to a *bona fide* partner's HSA are not contributions by an employer. The contributions are treated as a distribution of money and are not included in the partner's gross income. Contributions by a partnership to a partner's HSA for services rendered are treated as guaranteed payments that are includible in the partner's gross income. In both situations, the partner can deduct the contribution made to the partner's HSA.

Contributions by an S corporation to a 2% shareholder-employee's HSA for services rendered are treated as guaranteed payments and are includible in the shareholder-employee's gross income. The shareholder-employee can deduct the contribution made to the shareholder-employee's HSA.

**Qualified HSA funding distribution.** You can make a one-time distribution from your individual retirement account (IRA) to an HSA and you generally will not include any of the distribution in your income. See Publication 590 for the requirements for these qualified HSA funding distributions.

**Failure to maintain eligibility.** If your HSA received qualified HSA distributions from a health FSA or HRA (discussed earlier) or a qualified HSA funding distribution, you must be an eligible individual for HSA purposes for the period beginning with the month in which the qualified distribution was made and ending on the last day of the 12th month following that month. If you fail to be an eligible individual during this period, other than because of death or disability, you must include the distribution in your income for the tax year in which you become ineligible. This income is also subject to an additional 10% tax.

## Adoption Assistance

You may be able to exclude from your income amounts paid or expenses incurred by your

employer for qualified adoption expenses in connection with your adoption of an eligible child. See the Instructions for Form 8839 for more information.

Adoption benefits are reported by your employer in box 12 of Form W-2 with code T. They also are included as social security and Medicare wages in boxes 3 and 5. However, they are not included as wages in box 1. To determine the taxable and nontaxable amounts, you must complete Part III of Form 8839, Qualified Adoption Expenses. File the form with your return.

## De Minimis (Minimal) Benefits

If your employer provides you with a product or service and the cost of it is so small that it would be unreasonable for the employer to account for it, the value is not included in your income. In most cases, the value of benefits such as discounts at company cafeterias, cab fares home when working overtime, and company picnics are not included in your income.

**Holiday gifts.** If your employer gives you a turkey, ham, or other item of nominal value at Christmas or other holidays, do not include the value of the gift in your income. However, if your employer gives you cash, a gift certificate, or a similar item that you can easily exchange for cash, you include the value of that gift as extra salary or wages regardless of the amount involved.

## Educational Assistance

You can exclude from your income up to \$5,250 of qualified employer-provided educational assistance. For more information, see Publication 970, Tax Benefits for Education.

## Group-Term Life Insurance

In most cases, the cost of up to \$50,000 of group-term life insurance coverage provided to you by your employer (or former employer) is not included in your income. However, you must include in income the cost of employer-provided insurance that is more than the cost of \$50,000 of coverage reduced by any amount you pay toward the purchase of the insurance.

For exceptions, see [Entire cost excluded](#), and [Entire cost taxed](#), later.

If your employer provided more than \$50,000 of coverage, the amount included in your income is reported as part of your wages in box 1 of your Form W-2. Also, it is shown separately in box 12 with code C.

**Group-term life insurance.** This insurance is term life insurance protection (insurance for a fixed period of time) that:

- Provides a general death benefit,
- Is provided to a group of employees,
- Is provided under a policy carried by the employer, and
- Provides an amount of insurance to each employee based on a formula that prevents individual selection.

**Permanent benefits.** If your group-term life insurance policy includes permanent benefits, such as a paid-up or cash surrender value, you must include in your income, as wages, the cost of the permanent benefits minus the amount you pay for them. Your employer should be able to tell you the amount to include in your income.

**Accidental death benefits.** Insurance that provides accidental or other death benefits but does not provide general death benefits (travel insurance, for example) is not group-term life insurance.

**Former employer.** If your former employer provided more than \$50,000 of group-term life insurance coverage during the year, the amount included in your income is reported as wages in box 1 of Form W-2. Also, it is shown separately in box 12 with code C. Box 12 also will show the amount of uncollected social security and Medicare taxes on the excess coverage, with codes M and N. You must pay these taxes with your income tax return. Include them on line 60, Form 1040, and enter "UT" and the amount of the taxes on the dotted line next to line 60. For more information, see the Instructions for Form 1040.

**Two or more employers.** Your exclusion for employer-provided group-term life insurance coverage cannot exceed the cost of \$50,000 of coverage, whether the insurance is provided by a single employer or multiple employers. If two or more employers provide insurance coverage that totals more than \$50,000, the amounts reported as wages on your Forms W-2 will not be correct. You must figure how much to include in your income. Reduce the amount you figure by any amount reported with code C in box 12 of your Forms W-2, add the result to the wages reported in box 1, and report the total on your return.

**Figuring the taxable cost.** Use the following worksheet to figure the amount to include in your income.