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IRS Releases Revised 2018 HSA Contribution Limits

The IRS has released guidance that immediately reduces the 2018 HSA maximum contribution limit for family coverage from $6,900 to $6,850. To avoid excise taxes employees will need to limit their 2018 contributions to the new maximum. The guidance also reduces the employer-provided adoption assistance exclusion from $13,840 to $13,810.

Background

Early in 2017, the IRS issued the calendar year 2018 inflation-adjusted contribution limits for health savings accounts (HSAs) along with minimum deductible and maximum out-of-pocket (OOP) limits for high-deductible health plans (HDHPs). The limits are determined under Code section 223's cost-of-living adjustment and rounding rules. (See our May 9, 2017 *For Your Information*.) In late 2017, the IRS released the exclusion limits for employer-provided adoption assistance programs. (See our October 20, 2017 *For Your Information*.)

Reduction in HSA Family Contribution Maximum

On March 5, the IRS released Internal Revenue Bulletin (IRB): 2018-10 that included a reduction in the HSA maximum annual contribution for family coverage by $50: from $6,900 to $6,850. No other changes were made to other HSA limits. The self-only maximum annual contribution remains at $3,450.

The reduction in the family contribution maximum is the result of a provision in the new tax reform law (Tax Cuts and Jobs Act) that changes the method for determining cost-of-living adjustments (indexing) for various purposes under federal law, including HSA contribution limits. (See our December 20, 2017 *Legislate*.) The change is effective immediately. The following table sets out the revised contribution limits for 2018. (The 2018 HDHP minimum deductible and maximum out-of-pocket amounts remain unchanged.)

	New 2018 Limits	Old 2018 Limits	Changes
HSA Statutory Contribution Amount			
Self-only	$ 3,450	$ 3,450	No change
Family	6,850	6,900	$50 reduction
Catch-up Contribution (age 55 or older)	$ 1,000	$ 1,000	No change

What Actions Should Be Taken?

Excess contributions to an HSA are included in gross income as well as subject to a 6% excise tax. To avoid the excise tax, salary reduction contributions (or employer contributions) for 2018 should not exceed the maximum contribution of $6,850 ($7,850 for employees eligible for the catch-up contribution). To that end, election and/or contribution amounts may need to be reduced to comply with this new limit.

To ensure that employees contributing to an HSA don't exceed the 2018 maximum permitted contribution for family coverage, employers should consider the following:

- Communicating the new maximum contribution limit to employees
- Advising employees who have elected $6,900 to reduce their election to $6,850. Under the cafeteria plan election change regulations, employees are permitted to change their HSA elections at least monthly.
- Making automatic contribution changes to accommodate the new contribution limit for affected employees who did not reduce their elections on their own. Tax law provides that an employer can exclude from compensation those amounts that it reasonably believes an employee will be able to exclude from income. Going forward from the date of this IRB (March 5), an employer can no longer hold that reasonable belief and contributions should be adjusted accordingly.

How many employees are affected by this reduction in the limit?

Statistics from BenefitWallet®, an HSA solution offered by Conduent Human Resource Services, show that approximately 5% of employees make the maximum family contribution to an HSA.

> **Comment:** This automatic contribution change approach may involve making changes to HSA elections that are neither addressed nor fit neatly into a change of election category in the employer's cafeteria plan. Employers may need to weigh any associated risks and should discuss this approach with counsel or tax advisors to ensure compliance with tax laws. Also, in automatically reducing employee contributions to the $6,850, employers need to consider the $1,000 catch-up contribution amount that employees 55 and older can make to their HSA.

Employees who have already contributed $6,900 must withdraw the excess amount, plus earnings, prior to filing their federal income tax return, including any extensions. For 2018, the excess contributions and earnings would typically need to be withdrawn by April 15, 2019. The employee can't just withdraw the excess contribution themselves from the HSA. Instead, the employee must notify the HSA administrator of the correction and request a distribution for the excess contribution. HSA administrators often have a fee to process this special withdrawal.

What Happens if the Employee Takes No Action?

This change in the maximum contribution amount will likely be confusing to some employees who may take no action as result, or be unaware of any needed action. Depending on the circumstances, the excess contribution of $50, plus earnings, could be subject to taxation as well as a 6% excise tax. That said, the excise tax is likely to be minimal — $3 (6% of $50, ignoring the earnings). And in this instance, the employee could leave the $50 in the HSA and have it counted towards the 2019 contribution limit to avoid future excise taxes.

Adoption Assistance Programs

The IRS guidance also revised the 2018 amounts for adoption assistance programs. The 2018 maximum excludible amount was reduced by $30. The excludible amount phases out at higher incomes. The following table sets out the revised amounts for 2018.

	New 2018 Amounts	Old 2018 Amounts	Changes
Excludible amount	$ 13,810	$ 13,840	$30 reduction
Phase-out income thresholds			
Phase-out begins	$ 207,140	$ 207,580	$440 reduction
Phase-out complete	$ 247,140	$ 247,580	$440 reduction

In Closing

Employers should quickly assess their HSA arrangement, contemplating the number of employees who elected the maximum contribution for family coverage. Working with attorneys, tax and other trusted advisors, employers should prepare and execute a strategy for the remainder of 2018 to address this issue. That strategy will include employee communications, election changes and/or automatic contribution reductions.

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