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For Your Information®
US

Volume 41 | Issue 31 | April 30, 2018

Original 2018 HSA Family Contribution Limit Remains in Effect

In response to stakeholder concerns, IRS announced last week that "it is in the best interest of sound and efficient tax administration" to treat the $6,900 annual limitation as the 2018 inflation-adjusted limit on HSA contributions for eligible individuals with family coverage under an HDHP. Employers that had already distributed excess contributions plus earnings based on the $6,850 limit announced in March may wish to let employees know about their option to repay that distribution to the HSA, or increase future payroll contributions. No action is necessary for employers that had not acted on the March guidance.

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*.) On March 5, 2018, however, the IRS reduced the 2018 HSA maximum contribution limit for family coverage from $6,900 to $6,850. The $50 reduction resulted from a provision in the Tax Cuts and Jobs Act that changed the method for determining cost-of-living adjustments (indexing) for various purposes under federal law, including HSA contribution limits. (See our March 9, 2018 *For Your Information.*)

Following this change, stakeholders raised concerns that the costs of modifying administrative systems to reflect the reduced maximum, and of distributing a $50 excess contribution plus earnings, would greatly outweigh any tax benefit associated with an unreduced HSA contribution. They also pointed out that Code section 223(g)(1) requires annual inflation adjustments for HSAs to be published by June 1 of the preceding calendar year.

IRS OKs Using $6,900 Limit After All (Phew!)

In response these concerns, IRS announced in Rev. Proc. 2018-27 on April 26, 2018, that "it is in the best interest of sound and efficient tax administration" to treat the $6,900 annual limitation as the 2018 inflation adjusted limit on HSA contributions for eligible individuals with family coverage under an HDHP. It issued an accompanying news release.

For employers that have already distributed excess contributions and earnings based on the $6,850 limit announced in March, the IRS clarified that an individual who receives an excess distribution under these circumstances may repay the distribution to the HSA. Alternatively, if an individual who received a distribution does not repay it to the HSA, he or she does not need to include it in gross income to avoid the excise tax that would otherwise apply.

In Closing

Employers that had already distributed the $50 plus earnings based on the $6,850 limit may wish to let employees know about the option to repay the distribution to the HSA, or increase their future payroll contributions to include the $50. No action is necessary for employers that had not acted in response to the March guidance.

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