

WHAT YOU NEED TO KNOW



IRS Changes HSA Limit for 2018

The Internal Revenue Service (IRS) recently released [Revenue Procedure 2018-27](#) to modify the 2018 health savings account (HSA) family contribution limit back to \$6,900. This is the second, and likely final, change in limit during 2018.

Background

In May 2017, the IRS released [Revenue Procedure 2017-37](#) that set the 2018 HSA family contribution limit at \$6,900.

However, in March 2018, the IRS released [Revenue Procedure 2018-10](#) that adjusted the annual inflation factor for some tax-related formulas from the Consumer Price Index (CPI) to a new factor called a “chained CPI.” As a result, the 2018 HSA family contribution limit was lowered to \$6,850 from \$6,900, retroactively effective to January 1, 2018.

Stakeholders informed the IRS that the lower HSA contribution limit would impose many unanticipated administrative and financial burdens. In response, and in the best interest of sound and efficient tax administration, the IRS will allow taxpayers to treat the originally published \$6,900 limit as the 2018 HSA family contribution limit.

What if an individual received a distribution based on the earlier HSA limit?

Individuals who received a distribution from an HSA of an excess contribution (with earnings) based on the earlier \$6,850 limit may repay the distribution and treat it as “the result of a mistake in fact due to reasonable cause.” Further, an individual’s repayment by April 15, 2019, will not be included in the individual’s gross income or subject to the 20 percent excess contributions excise tax. However, the IRS notes that a trustee or custodian is not required to allow individuals to repay mistaken distributions.

Individuals who received a distribution from an HSA of an excess contribution (with earnings) based on the earlier \$6,850 limit and who choose not to repay the distribution may treat the distribution as an excess contribution returned before the individual’s tax return due date. This means that the excess contribution will not be included in the individual’s gross income or subject to the 20 percent excess contributions excise tax, as long as the distribution was received by the individual’s 2018 tax return filing date (including any extensions).

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In the example directly above, if the HSA distributions are attributable to employer contributions and if the employer doesn't include any portion of the contributions in the employee's wages because the employer treats \$6,900 as the limit, then the distribution is includible in the employee's gross income and subject to the 20 percent excess contributions excise tax, unless the employee uses the distribution to pay for qualified medical expenses.

Employee received distribution of excess contribution with earnings?	Employee repays distribution by the individual's tax return filing date?	Excess contribution is includible in the employee's gross income and subject to the 20% excess contributions excise tax?
Yes	Yes	No
Yes	No	<p>Generally, no.</p> <p>Yes, if the HSA distribution is attributable to employer contributions and not included in the employee's wages because the employer treats \$6,900 as the limit, unless the employee uses the distribution for qualified medical expenses.</p>

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