



# COMPLIANCE BULLETIN

## HIGHLIGHTS

- The IRS will allow individuals with family HDHP coverage to use the original \$6,900 limit for HSA contributions for 2018.
- The IRS previously announced that the limit was reduced to \$6,850 for 2018.
- Employees with family HDHP coverage may want to change their HSA elections for the \$6,900 limit.

## IMPORTANT DATES

### March 5, 2018

The IRS announced that the HSA contribution limit for family HDHP coverage was reduced for 2018, from \$6,900 to \$6,850.

### April 26, 2018

The IRS announced that taxpayers with family HDHP coverage may treat \$6,900 as the HSA contribution limit for 2018.

### Provided By:

Cowden Associates, Inc.

## IRS Allows Taxpayers with Family Coverage to Use \$6,900 HSA Limit for 2018

### OVERVIEW

On April 26, 2018, the IRS [announced](#) that, for 2018, taxpayers with family high deductible health plan (HDHP) coverage may treat **\$6,900** as the annual contribution limit to their health savings accounts (HSAs).

Earlier this year, a tax law change for 2018 reduced the HSA contribution limit for individuals with family HDHP coverage from \$6,900 to \$6,850. After this change was announced, the IRS received complaints that the \$50 reduction would be difficult and costly to implement.

The IRS has now decided to allow taxpayers with family HDHP coverage to use the original \$6,900 limit for HSA contributions for 2018, without facing excess contribution penalties.

### ACTION STEPS

Employers with HDHPs may want to inform their employees about the HSA contribution limit change for family HDHP coverage. Employees who changed their HSA elections to comply with the reduced limit may wish to change their elections again for the \$6,900 limit.

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## HSA Contribution Limits

Each year, the IRS announces inflation-adjusted limits for HSAs and HDHPs. The adjusted contribution limits for HSAs take effect as of Jan. 1 of the following year. In May 2017, the IRS [announced](#) the following inflation-adjusted contribution limits for HSAs for 2018:

- ✓ **\$3,450** for individuals with self-only HDHP coverage; and
- ✓ **\$6,900** for individuals with family HDHP coverage.

HSA contributions that exceed an individual's contribution limit are considered excess contributions. Excess contributions are included in the individual's gross income for tax purposes. They are also subject to a 6 percent excise tax unless they are distributed to the HSA owner by the following April 15.

### *HSA Limit Was Reduced for 2018*

The new federal tax law ([Tax Cuts and Jobs Act](#)), which was enacted at the end of 2017, changed the inflation adjustment calculations for certain tax limits, including the HSA limits, effective for 2018.

Using the new calculations, the IRS [reduced](#) one of the HSA limits for 2018 earlier this year—the HSA contribution limit for individuals with family HDHP coverage. This limit was lowered by \$50—from \$6,900 to \$6,850, effective for the 2018 calendar year. All of the other HSA and HDHP limits for 2018 were unchanged, and remained the same as those announced by the IRS in May 2017.

### *Taxpayers May Rely on Original \$6,900 Limit*

After the IRS reduced the HSA limit for individuals with family HDHP coverage, it received feedback from various stakeholders, including employers, that the change would be disruptive and costly to implement. For example, some individuals with family HDHP coverage made the full \$6,900 HSA contribution before the limit was reduced, and many other individuals made annual salary reduction elections for HSA contributions through their employers' cafeteria plans based on the \$6,900 limit.

In response to these concerns and others, the IRS issued [Revenue Procedure 2018-27](#), which allows taxpayers with family HDHP coverage to use the original \$6,900 HSA contribution limit for 2018.

### *Corrective Distributions Based on \$6,850 Limit*

After the reduction in the limit was announced, some HSA account holders may have received a distribution (with earnings) from their HSAs to correct an excess contribution, based on the \$6,850 limit. [Revenue Procedure 2018-27](#) addresses the tax consequences for these individuals. To avoid taxes and penalties, individuals can repay these distributions or use them for qualified medical expenses.

- ✓ Individuals may **repay the distribution** to the HSA and treat the distribution as the result of a mistake of fact due to reasonable cause under IRS rules. The portion of a distribution (including earnings) that an individual repays to an HSA by April 15, 2019, is not included in the individual's gross income or

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subject to the 20 percent additional tax for distributions for non-medical expenses, and the repayment is not subject to the excise tax on excess contributions. However, an HSA trustee or custodian is not required to allow individuals to repay mistaken distributions.

- ✓ If the distribution is **not repaid** and is attributable to employer HSA contributions (including employee contributions through a cafeteria plan) that are not included in the employee's wages, the distribution is included in the employee's gross income and subject to the 20 percent additional tax, unless it is used to pay qualified medical expenses.

## HSA/HDHP Limits for 2018

The following chart shows the HSA/HDHP limits that apply for 2018:

Type of Limit		Dollar Limit
HSA Contribution Limit	Self-only	\$3,450
	Family	\$6,900
HSA Catch-up Contributions <i>(not subject to adjustment for inflation)</i>	Age 55 or older	\$1,000
HDHP Minimum Deductible	Self-only	\$1,350
	Family	\$2,700
HDHP Maximum Out-of-pocket Expense Limit	Self-only	\$6,650
	Family	\$13,300