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Compliance Alert

May 3, 2018

Updated Guidance from IRS: HSA Contributions Limits May Remain at $6,900 for 2018

PDF

The maximum family coverage contribution to a Health Savings Account (HSA) for 2018, announced on May 4, 2017, was originally $6,900. On March 5, 2018, however, the $6,900 figure was reduced to $6,850 due to changes to the indexing provisions of the Internal Revenue Code made by the Tax Cuts and Jobs Act. Dollar amounts in the Internal Revenue Code, including annual limits for HSA contributions that were previously indexed using Consumer Price Index for all Urban Consumers (CPI-U) were indexed for 2018 and beyond using the Chained Consumer Price Index for All Urban Consumers (C-CPI-U).

As a result of the changes in the Tax Cut and Jobs Act, the Internal Revenue Service (IRS) recalculated the indexing of HSA amounts for 2018. This re-calculation resulted in a lower HSA contribution level for those with family coverage for 2018. A large number of HSA beneficiaries fully funded their accounts at the beginning of the year, only to find they had over-contributed through no fault of their own. The rules to remove excess contributions and earnings are complicated, and annual limits and per paycheck amounts needed to be changed for millions of participants.

WageWorks wrote a comment letter and participated in a meeting with the IRS and Treasury Department concerning the onerous task of dealing with the new, lower, limits.

On April 26, 2018, the IRS released Revenue Procedure 2018-27 with great news for all HSA beneficiaries who elected the maximum family coverage contribution amount of $6,900. For 2018, taxpayers may treat $6,900 as the annual limitation on contributions for those with family coverage.

Individuals who received a distribution from an HSA of an excess contribution (with earnings) based on the $6,850 deduction limit may repay the distribution to their HSA and treat the distribution as the result of mistake in fact due to reasonable cause. Mistaken distributions that are repaid to an HSA are not required to be reported on Form 1099-SA or Form 8889 and are not required to be reported as additional HSA contributions. Individuals who already had the $50 returned may choose to repay the amount into their HSA.

Two methods of funding HSAs

Keep in mind that contributions may be added to taxpayers' HSAs on either a post-tax or pre-tax basis. If the taxpayer does not pay back the mistaken distribution, as described above, the tax consequences are different depending on how the HSAs are funded.

The post-tax approach means that taxpayers sent contributions directly to the HSA custodian or through payroll with post-tax dollars. They will generally be taking the contributions as an above-the-line deduction on their tax filing.

Contributions through a cafeteria plan election or otherwise made by an employer are generally made on a pre-tax basis.

Why does this matter? If taxpayers removed their HSA annual contributions (with earnings) and did not repay the distribution, this could trigger a taxable event.

Under Revenue Procedure 2018-27 individuals who fund their HSAs with post-tax dollars are given the option to leave or return the extra $50 to their HSAs and will not suffer any negative tax consequences regardless of their decision. If, however, the HSA is funded with pre-tax dollars the extra $50 needs to be returned in a timely manner, or kept in the HSA and used for qualified medical expense in order to avoid negative tax consequences.

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