IRS Reverses Course on 2018 Health Savings Account Contribution Limit

Issue Date: May 2018

Quick Facts:

- Earlier this year, the Internal Revenue Service (IRS) announced that the 2018 maximum annual health savings account (HSA) contribution amount for an individual with family high deductible health plan (HDHP) coverage would be reduced to $6,850 due to the recently passed Tax Cuts and Jobs Act.
- On April 26, 2018, the IRS announced that individuals enrolled in family HDHP coverage may rely on the original $6,900 HSA contribution limit for 2018.

After great hue and cry from HSA custodians, HSA sponsors and other interested parties, the IRS has announced that individuals enrolled in family HDHP coverage may rely on the original $6,900 HSA contribution limit for 2018.

Earlier this year, the IRS announced in Rev. Proc. 2018-18 that the 2018 maximum annual HSA contribution amount for an individual with family HDHP coverage would be $6,850 due to required changes under the recently passed Tax Cuts and Jobs Act.

Many practitioners acted on Rev. Proc. 2018-18 and had individuals modify withholding elections for the remainder of the year, or even distributed the $50 excess contribution to those who had already contributed the full $6,900 by the time the IRS published the reduced limit.

In its April 26, 2018 announcement, the IRS states that an individual who receives a distribution from an HSA of an excess contribution (with earnings) based on the reduced $6,850 contribution limit published in Rev. Proc. 2018-18 may repay the distribution to the HSA and treat the distribution as the result of a mistake of fact due to reasonable cause. The portion of a distribution (including earnings) that an individual repays to an HSA by April 15, 2019 will not be included in the individual's gross income or be subject to the 20% additional tax that would generally apply to such an amount.

Further, the repayment is not subject to the excise tax on excess HSA contributions, and any mistaken distributions that are repaid to an HSA are not required to be reported on Form 1099-SA or Form 8889. They are also not required to be reported as additional HSA contributions.

An individual who receives a distribution from an HSA of an excess contribution (with earnings) based on the previously announced reduced contribution limit and does not repay the distribution to the HSA may treat the distribution as an excess contribution returned before the due date of his or her applicable federal tax return. The excess contribution generally will not be included in gross income or subject to the 20% additional tax under Internal Revenue Code Section 223(f)(4), provided the distribution is received on or before the last day (including extensions) for filing the individual's 2018 tax return.

The relief in the preceding paragraph would not apply if an individual has received a distribution of an amount that was an employer contribution – including salary reductions through a cafeteria plan – and the employer treats the full $6,900 HSA contribution as not includible in wages for 2018 (unless an individual uses the amount to pay qualified medical expenses).

We are aware that some of our clients have worked with their respective HSA custodians to make changes to comply with Rev. Proc. 2018-18, while other custodians had been waiting to see if the IRS would change its position. In either case, the new announcement will offer relief to employers and individuals by allowing the original 2018 contribution amount of $6,900 to apply to any individual with family HDHP coverage in 2018.