IRS Provides Relief Regarding Mid-Year HSA Contribution Limit Change

On April 26, 2018, the Internal Revenue Service (IRS) provided relief via Revenue Procedure 2018-27 relating to the annual limitation on contributions to Health Savings Accounts (HSAs) allowed to individuals with family coverage under a high deductible health plan (HDHP) for 2018. It allows individuals to treat $6,900 as the 2018 contribution limit. The guidance also provides that taxpayers, who already received a distribution from an HSA of an excess contribution based on the $6,850 deduction limit, may treat the distribution as a mistake and repay the HSA without any tax or reporting consequences.

Background

On May 4, 2017, the IRS published Revenue Procedure 2017- 37, which released inflation-adjusted contribution limitations for calendar year 2018 for HSAs and HDHPs. The family HDHP contribution limit was announced as $6,900.

On March 5, 2018, the IRS **announced a reduction via Revenue Procedure 2018-18** to the 2018 contribution limit for individuals with family coverage under an HDHP from $6,900 (as announced in Revenue Procedure 2017-37) to a new limit of $6,850.

The reason for the reduction is a provision in the Tax Cuts and Jobs Act (signed into law on December 22, 2017), which replaced the consumer price index (CPI-U) as the inflation adjustment with what is commonly referred to as the "chained consumer price index" (C-CPI-U) for indexing dollar thresholds for HSAs.

This change would have required extensive corrective actions for those who contributed more than the $6,850 deduction limit. For example, the individual would have been required to request a corrective distribution of the excess, along with any associated earnings. The earnings calculation is quite complex and any earnings were likely to be a minor amount. If left uncorrected, the excess would have been subject to a 20 percent additional tax and additional reporting obligations. In light of these burdens, ADP worked with influential associations in Washington and the Treasury Department to suggest that regulatory relief would be appropriate.

Request for Relief

In providing the relief, the IRS in Revenue Procedure 2018-27 stated the following:

> *In response to Rev. Proc. 2018-18, stakeholders informed the Treasury Department and the IRS that implementing the $50 reduction to the limitation on deductions for individuals with family coverage would impose numerous unanticipated administrative and financial burdens. Specifically, stakeholders noted that some individuals with family coverage under an HDHP made the maximum HSA contribution for the 2018 calendar year before the issuance of Rev. Proc. 2018-18 reducing the deduction limitation, and that many other individuals made annual salary reduction elections for HSA contributions through their employers' cafeteria plans based on the $6,900 limit for an individual with family coverage under an HDHP.*

Relief Provided

Contributions to HSA:
Individuals may treat $6,900 as the contribution limit in 2018 for an individual with family coverage under an HDHP.

Eye On Washington

Regulatory Update

A more human resource.®

Distributions from HSA:
An individual who receives a distribution from an HSA of an excess contribution (with earnings) based on the $6,850 deduction limit may repay the distribution to the HSA and treat the distribution as the result of a mistake of fact due to reasonable cause. Accordingly, 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 subject to the 20 percent additional tax, and the repayment is not subject to the six percent excise tax on excess contributions. 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. However, a trustee or custodian is not required to allow individuals to repay mistaken distributions.

Alternatively, an individual who receives a distribution from an HSA of an excess contribution (with earnings) based on the $6,850 deduction limit – and does not repay the distribution to the HSA – may treat the distribution as contributions returned before the due date of return. Thus, the excess contribution generally would not be included in gross income or subject to the 20 percent additional tax, provided the distribution is received on or before the last day for filing the individual's 2018 tax return.

Note: The tax treatment of distributions described above does not apply to distributions from an HSA that are attributable to employer contributions – if the employer does not include any portion of the contributions in the employee's wages because the employer treats $6,900 as the annual limit. In that case, unless the distribution from the HSA is used to pay qualified medical expenses, the distribution is includible in the employee's gross income and subject to the 20 percent additional tax.

For a copy of Revenue Procedure 2018-27 please click on the link provided below:

https://www.irs.gov/pub/irs-drop/rp-18-27.pdf

ADP Compliance Resources

ADP maintains a staff of dedicated professionals who carefully monitor federal and state legislative and regulatory measures affecting employment-related human resource, payroll, tax and benefits administration, and help ensure that ADP systems are updated as relevant laws evolve. For the latest on how federal and state tax law changes may impact your business, visit the ADP *Eye on Washington* Web page located at **www.adp.com/regulatorynews**.

ADP, LLC.
1 ADP Boulevard, Roseland, NJ 07068
adp.com

Updated on May 1, 2018