IRS Announces HSA Contribution Limit Increase for 2018

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On April 26, 2018, the Internal Revenue Service (IRS) increased the 2018 maximum deductible Health Savings Account (HSA) contribution for taxpayers with family coverage under a High Deductible Health Plan (HDHP) to $6,900.

The $6,900 contribution limit for 2018 was originally published in Revenue Procedure 2017-37, but was reduced earlier this year by $50 to $6,850 in Revenue Procedure 2018-18 due to changes in the inflation indexing measure under the Tax Cuts and Jobs Act. The IRS later increased the limit back to the originally announced amount of $6,900. This relief is published in Revenue Procedure 2018-27 and appears to be the result of pushback from employers, many of whom would face significant administrative costs due to implementing the mid-year change, and governing law requiring the annual HSA limits to be published by no later than June 1 of the preceding calendar year.

Under the guidance, an individual who received a distribution from an HSA in 2018 of an excess contribution based on the previous $50 reduction may repay the distribution to the HSA by April 15, 2019. The repaid amount would not be included in the individual’s gross income or subject to additional taxation. Alternatively, such individual may take no action and treat the $50 HSA distribution as an excess contribution that was timely returned and thus not subject to income inclusion or additional taxation.

Employers who previously lowered their plan’s contribution limit for HSAs to $6,850 should consider how to address the increased limit and whether any changes or employee communications are necessary.

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