HSA Relief

Cross References

- Rev. Proc. 2018-27

The Health Savings Account (HSA) annual limitations for 2018 have been modified once again. On May 4, 2017, the IRS issued Revenue Procedure 2017-37 which provided the 2018 inflation adjusted amounts for HSAs. That revenue procedure determined that the annual limitation on deductions for an individual with family coverage under a high deductible health plan (HDHP) was $6,900 ($7,900 age 55 and older).

Then on December 22, 2017, the Tax Cuts and Jobs Act modified the inflation adjustments for certain provisions of the Internal Revenue Code, including the inflation adjustments for HSAs. As a result of the new law, the IRS issued Revenue Procedure 2018-18 on March 2, 2018 which superseded Revenue Procedure 2017-37 to reflect the statutory amendments to the inflation adjustments. The new annual limitation on deductions for an individual with family coverage under an HDHP was $6,850 for 2018, which was a $50 reduction from the previous limitation announce in Revenue Procedure 2017-37. None of the other HSA inflation adjustments for 2018 were changed.

The IRS received a number of complaints stating that implementing the $50 reduction to the limitation would impose numerous unanticipated administrative and financial burdens. Some individuals with family coverage made the maximum HSA contribution for the 2018 calendar year prior to the issuance of Revenue Procedure 2018-18. Other individuals made annual salary reduction elections for HSA contributions through their employer's cafeteria plans based upon the $6,900 limit. The costs of modifying the various systems to reflect the reduced maximum, as well as the costs associated with distributing a $50 excess contribution plus earnings would be significantly greater than any tax benefit associated with an unreduced HSA contribution. Some also pointed out that IRC section 223(g)(1) requires annual inflation adjustments for HSAs to be published by June 1 of the preceding calendar year.

In response to these concerns, the IRS has determined that it is in the best interest of sound and efficient tax administration to allow taxpayers to treat the $6,900 annual limitation originally published as the 2018 inflation adjusted limitation on HSA contributions. Any individual who has already received the $50 (plus earnings) distribution from an HSA of excess contributions based on the $6,850 limit may repay the distribution to the HSA and treat the distribution as the result of a mistake of fact due to reasonable cause. If the individual repays such distribution back into the HSA by April 15, 2019, it is not included in the taxpayer's gross income or subject to the 20% penalty, nor is it subject to the 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, the HSA trustee or custodian is not required to allow individuals to repay the distribution.

Alternatively, if the individual does not repay the $50 (plus earnings) distribution, it is treated as a distribution of an excess contribution that is not included in gross income or subject to the 20% penalty, provided the taxpayer receives the distribution by April 15, 2019.

The preceding paragraph does not apply to distributions attributable to employer contributions (such as a cafeteria plan election) 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 limitation. In that case, unless the distribution from the HSA is used to pay qualified medical expenses, the distribution is included in the employee's gross income and subject to the 20% penalty.

Author's Comment

Revenue Procedure 2018-27 resets the 2018 inflation adjusted contribution limit to $6,900 for individuals with family coverage ($7,900 age 55 and older). Individuals who have not yet contributed the maximum for 2018 may do so based upon the $6,900 amount. Likewise, individuals who have already contributed the $6,900 maximum but have not yet received the $50 (plus earnings) distribution of excess contributions do not have to do anything at this time.