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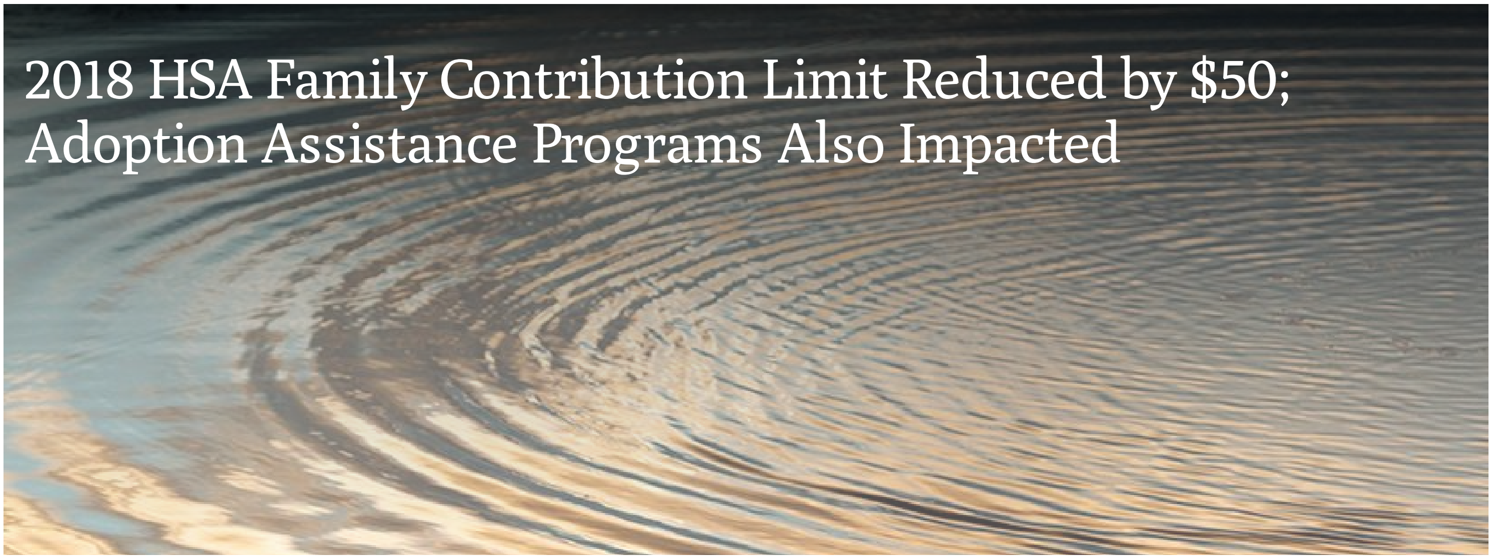
BLOG

2018 HSA Family Contribution Limit Reduced by $50; Adoption Assistance Programs Also Impacted



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The IRS recently released Revenue Procedure 2018-18, which modifies certain 2018 cost-of-living adjustments previously announced in Revenue Procedure 2017-58, including the health savings account (HSA) contribution limit for individuals with family coverage. Previously, the IRS set the 2018 HSA contribution limit at $3,450 for individuals with self-only coverage, and $6,900 for individuals with family coverage. **IRS Revenue Procedure 2018-18 reduces the 2018 HSA contribution limit for family coverage to $6,850.** This change is effective immediately. The contribution limit for **single coverage remains at $3,450**.

This mid-year change in the HSA contribution limit creates an administrative challenge for employers with high deductible health plans who make or facilitate employee contributions to HSAs. Employee HSA contribution elections are typically programmed into an employer's payroll system in connection with annual enrollment, and contributions are usually spread out evenly through the course of the year. This limit change will require employers to make adjustments to prevent employees from making total contributions over the reduced 2018 limit, as well as to update benefit enrollment systems to prevent newly eligible employees from electing HSA contributions above $6,850. This mid-year limit reduction poses additional compliance complications for individuals who frontloaded their 2018 HSA contributions and have already contributed more than $6,850 to their HSAs. Individuals who exceed the $6,850 family contribution limit could be subject to taxes and penalties if they do not take a corrective distribution of the excess amount, plus the net income attributable to the excess contribution, before the 2018 federal income tax return filing deadline.

A number of organizations and trade groups have approached the IRS to discuss transition relief or other solutions that would minimize disruption and unexpected administrative burdens imposed on employers and individuals. However, employers should act now to identify employees who, when combined with any company HSA contribution, elected to contribute more than $6,850 to an HSA, and should reach out to relevant vendors to discuss the process for making changes to employee HSA contribution elections.

This cost of living adjustment resulted from a change in the method of determining certain inflation-related increases under the Tax Cuts and Jobs Act, which had an immediate effective date.

This change also impacts adoption assistance programs. For 2018, the maximum amount of qualified adoption expenses that can be excluded from an employee's gross income **is reduced by $30, from $13,840 to $13,810**.

The modified adjusted gross income threshold after which the adoption exclusion begins to phase out is now $207,140 (reduced from $207,580), and the exclusion is completely phased out for taxpayers with modified adjusted gross income of $247,140 or more (reduced from $247, 580). The adoption assistance credit is similarly reduced.

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