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IRS Announces Adjustments to 2018 HSA Maximum Contribution Limit and Other Limits

The Internal Revenue Service recently released Revenue Procedure 2018-18 (Rev. Proc. 2018-18). Among several changes, Rev. Proc. 2018-18 recalculates a number of cost-of-living adjustments for calendar year 2018 due to the recently enacted Tax Cuts and Jobs Act (the "Tax Reform Act"), which was signed into law on December 22, 2017. The Tax Reform Act requires, in pertinent part, a permanent change to the method used to calculate cost-of-living increases from the Traditional Consumer Price Index to the Chained Consumer Price Index (Chained CPI). The Chained CPI adjusts for substitution bias by recognizing that if the cost of a good increases, consumers will likely shift their purchasing behavior by buying a lower-priced substitute for that good. The Chained CPI therefore is more likely to produce slower rates of inflation and lower cost-of-living increases.

Most notably, Rev. Proc. 2018-18 revised the following inflation-adjusted limits for 2018:

- ***Health Savings Accounts:*** The annual maximum contribution for HSA family coverage is reduced from $6,900 to $6,850.
- ***Archer Medical Savings Accounts:*** For Archer MSA-compatible, high-deductible health plan coverage, the minimum annual deductible threshold for family coverage was adjusted downward from $4,600 to $4,550.
- ***Adoption assistance programs*:** The maximum amount that can be excluded from an employee's gross income for qualified adoption expenses is reduced from $13,840 to $13,810. Also, the adjusted gross income threshold after which the adoption exclusion begins to phase out is reduced from $207,580 to $207,140.

Sponsors and plan administrators should assess whether any refunds and any other adjustments to contributions are needed for the remainder of 2018 or any plan amendments are required. In addition, sponsors and plan administrators should notify employees of the change in limits so that affected employees may take any necessary remedial actions.

For example, in the case of any contributions for HSA family coverage that are in excess of the annual contribution limit, whether such contributions were made by the employer or the employee, the employee (as the HSA account owner) may request a refund of the excess contributions from the HSA vendor. Excess HSA contributions are not tax-deductible to the employee and subject the employee to an excise tax. With respect to any excess HSA contributions, an employee may either (1) leave the excess contributions in the HSA and pay a 6 percent excise tax on the excess contributions or (2) remove the excess contributions and any net income attributable to the excess contributions before the individual's deadline for filing his or her federal income tax return (including extensions) for the applicable tax year. The excess HSA contributions refund request forms of some HSA vendors also provide the HSA account owner with an election to have the excess funds returned either to the HSA owner or to his or her employer, provided the employer agreed to accept the return of the excess funds. Employers accepting such refunds should process the excess funds through payroll, applying the appropriate payroll and income taxes, and should report the returned excess funds as gross income on the employee's form W-2 for 2018. It is recommended, therefore, that sponsors and plan administrators proactively notify employees of any excess HSA contributions for 2018 and include in the notice general information that an employee may need in order to contact the HSA vendor to request a refund of excess HSA contributions.

If you have any questions about the cost-of-living adjustments or any other employee benefits or executive compensation matters, please contact a member of Day Pitney's Employee Benefits and Executive Compensation practice group.

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