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IRS Decreases Some 2018 Limits

Including Maximum Family HSA Contribution

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Due to the new tax reform law, on March 5, 2018, the IRS released Revenue Procedure 2018-18 announcing that it has recalculated some of its previously-released 2018 limits for health saving accounts ("HSAs"), Archer medical savings accounts ("MSAs"), adoption assistance programs, and the small employer health insurance credit.

HSAs

The 2018 HSA maximum contribution for the family tier is reduced from $6,900 to **$6,850.** The other HSA limits remain the same.

Note that:

1. Although the limit is announced on an annual basis, it is actually determined monthly so individuals who are not HSA-eligible for all of 2018 are generally limited to the number of months they are HSA-eligible and enrolled in family coverage multiplied by $570.83 per month
(rather than $575 per month).

2. Individuals who already contributed the full 2018 limit (i.e., who front-loaded) or otherwise end up going over the limit need to contact the HSA trustee/custodian for a taxable distribution ($50 if HSA-eligible all year) by the due date of his or her 2018 tax return to avoid penalty. Additional information:

- The trustee or custodian of an individual's HSA is not responsible for determining whether contributions to the HSA exceed the maximum annual contribution. This is the responsibility of the account beneficiary who is also responsible for informing the trustee or custodian of any excess contribution and requesting a withdrawal of the excess contribution together with any net income attributable to the excess contribution. In this case, the trustee will make a distribution and report on Form 1099-SA.

- The excess contribution (from the employee or employer) and income are included in the participant's gross income.

- Excess contributions for a year and the income attributable to them should be returned by the due date of the participant's income tax return, including extensions, for that year.

- If not timely returned, the excess contributions will be subject to a 6% penalty.

3. HSA elections can be changed monthly. For HSAs to which employees are able to make pre-tax contributions, the Code Sec. 125 rules generally apply, but because the eligibility requirements and contribution limits for HSAs are determined on a month-by-month basis, an employee may increase or decrease the election at any time (and at least monthly) as long as the change is effective prospectively, without a status change.

   Employers can consider announcing to employees that there is a deemed automatic election to reduce the contribution unless the employee objects. This entails consulting the payroll department or vendor and adjusting the contributions accordingly. For an employer with 26 pay periods, the original maximum per pay HSA contribution for family coverage has been $265.38. However, with the announced reduction, the new amount is $263.46.

   For example, if the contribution for January – March 23 was $1,592.28 ($265.38 X 6 pay periods), the remaining contributions through December would be $262.88 per pay period ($5,257.72 / 20 pay periods), with a small rounding consideration.

4. An announcement should be made to employees about the new limit. There is no particular format required. Any materials printed already should be marked with the new limit, if feasible. Any materials not printed already should be amended, if feasible.

Archer MSAs

These arrangements are not common as they have generally been replaced by HDHP and HSA programs.

For MSA purposes, the coordinating plan must have:

- for self-only coverage, an annual out-of-pocket maximum (other than for premiums) for covered benefits of $4,550 (was $4,600); and

- for family coverage, an annual deductible of at least $4,550 (was $4,600).

The other limits remain the same.

Adoption Assistance Programs

For employer 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. Further, the adjusted gross income threshold after which the adoption exclusion begins to phase out is reduced from $207,580 to $207,140.

The other limits remain the same.

Small Employer Health Insurance Credit

An eligible small employer may claim, subject to a phaseout, a credit equal to 50% of nonelective contributions for health insurance for its employees. The credit is reduced under certain circumstances, including if the average annual full-time equivalent wages per employee are more than $26,600 (was $26,700).