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IRS Provides Relief for HSA Family Limit Change

Last Thursday, the IRS announced relief for taxpayers with family coverage under a High Deductible Health Plan (HDHP) who contribute to a Health Savings Account (HSA) by permitting such taxpayers to treat $6,900 as the maximum deductible family HSA contribution for 2018.

As you may recall, in March 2018, well into the calendar year, the IRS announced a $50 reduction in the previously announced HSA maximum family contribution limit from $6,900 to $6,850 due to a change in the inflation adjustment calculations for 2018 under the Tax Cuts and Jobs Act. Changing the family HSA limit after the start of the calendar year obviously created problems for taxpayers who had already made the full contribution.

Due to widespread comments and complaints from major stakeholders, the IRS determined that it was in the best interest of "sound and efficient" tax administration to allow taxpayers to treat $6,900 as the 2018 family limit despite the Tax Cuts and Jobs Act. In doing so, the IRS acknowledged the difficulties for taxpayers caused by a decrease in the limit after the start of the calendar year. The IRS also acknowledged that the costs of modifying systems to reflect the reduced limit, as well as the costs associated with distributing a $50 excess contribution (and earnings), which in some cases exceeded $50, would be significantly greater than any tax benefit associated with an unreduced HSA contribution.

The Revenue Procedure also provides guidance for individuals who may have already taken a distribution from their HSA in 2018 based on the March published limit of $6,850. An individual who received a distribution (with earnings) from an HSA of an excess contribution based on the lower $6,850 deduction limit may repay the distribution to the HSA and treat the distribution as the result of a mistake of fact due to reasonable cause. Alternatively, an individual who received a distribution from an HSA of an excess contribution (with earnings) based on the lower limit and does not repay the distribution to the HSA generally will not be required to include the excess contribution in gross income or be subject to any tax penalty. Employers that previously took action based on the lower limit announced in March should work with their HSA administrators to address the above issues.

Please visit www.moreton.com/category/compliance-updates/ for more information and to view other client alerts. This Client Alert was written by Carolyn Cox, Moreton & Company's in-house corporate counsel who provides our clients with compliance services. For additional questions, please contact Carolyn at 801-715-7110 or ccox@moreton.com.