

IRS Surprises by Reversing Surprise Mid-Year HSA Limit Reduction

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The Internal Revenue Service on April 26 issued its official response to overwhelmingly negative commentary received concerning an announcement the IRS made less than two months prior. In Revenue Procedure 2018-18, released March 2, the IRS had announced a reduction to the 2018 maximum contribution amount to a health savings account (HSA) of an individual enrolled in family coverage under a high deductible health plan. By reversing that decision, the IRS has now restored the 2018 HSA family contribution limit to \$6,900, the amount originally announced in May, 2017, before being reduced - temporarily, as it turns out - to \$6,850. The IRS explained, in Revenue Procedure 2018-27, that "stakeholders informed the Treasury Department and the IRS that implementing the \$50 reduction to the limitation on deductions for individuals with family coverage would impose numerous unanticipated administrative and financial burdens." Specifically, the IRS notes that some individuals had already made the maximum HSA contribution for the 2018 calendar year before the limit was reduced on March 2 and that many other individuals made annual salary reduction elections for HSA contributions through their employers' cafeteria plans based on the \$6,900 limit announced in 2017. The IRS also acknowledged comments suggesting that the costs of modifying various systems to reflect the reduced maximum, as well as the costs associated with distributing a \$50 excess contribution and related earnings, would be significantly greater than any tax benefit associated with an unreduced HSA contribution. Therefore, IRS's March surprise, which was necessitated by changes in the method of calculating inflation adjustments for many Internal Revenue Code provisions beginning in 2018 pursuant to the new tax law, has been superseded by IRS's April surprise reversing that decision "in the best interest of sound and efficient tax administration." Employers who made changes to employee contribution payroll deductions based on the reduced family contribution limit announced in March should, for employees who elected to defer the maximum permissible amount for the year, increase those employees' deferrals to reflect the restored limit of \$6,900. If you have questions about this latest development, please contact the author or another member of the firm's Employee Benefits group.