UBA ComplianceAdvisor

2018 HSA Contribution Limits for Family Coverage Impacted Retroactively

In March 2018, the IRS released Revenue Procedure 2018-10, which, for some tax-related formulas, adjusted the annual inflation factor from the Consumer Price Index (CPI) to a new factor called a “chained CPI.” This is retroactively effective to January 1, 2018.

As a result of the change, the 2018 family contribution limit for health savings account contributions is lowered to $6,850 from $6,900.

Enrollment	Contribution	Impact
Employee is enrolled in single qualifying high deductible health plan (HDHP) coverage	N/A	No change necessary
Employee is enrolled in family qualifying HDHP coverage	Employee (+ employer contributions if applicable) are set up to reach $6,900 by the end of 2018; employee wishes to cure prior to the end of 2018.	If no change is made, an excise tax of 6% will be imposed on the additional $50 unless the employee changes his or her salary reduction amount going forward and reduces the total contributions to $6,850 or less.

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Enrollment	Contribution	Impact
Employee is enrolled in family qualifying HDHP coverage	Employee (+ employer contributions if applicable) are set up to reach $6,900 by the end of 2018; employee does not cure prior to the end of 2018.	If no change is made, an excise tax of 6% will be imposed on the additional $50 unless: • Employee account-holder requests a curative distribution equal to the excess amount ($50) by the last day for filing the account holder's federal income tax return for the taxable year, (likely April 15, 2019) and does not use the distribution to pay qualified medical expenses. • The curative distribution would be made by contacting the HSA trustee or custodian and requesting a distribution of the excess amount plus attributable earnings (which are taxable). • The trustee will report the distribution on Form 1099-SA, coded as an excess contribution. • If the employer does not include the $50 on the employee's 2018 wages on the employee's W-2, the employee should report the $50 as "other income" on his or her federal income tax return.
Employee is enrolled in family qualifying HDHP coverage	Employer-only contributions have reached $6,900 by the end of 2018	An employee's HSA balance is non-forfeitable at all times regardless of who made contributions to the account, unless narrow exceptions occur. This includes contributing more than the annual maximum amount allowed by the IRS. • The HSA trustee or custodian may return the erroneous excess contributions to the employer upon the employer's request. • It is unclear under federal guidance if the financial institution must agree to return the funds.

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Formula for Net Income

The net income on an excess HSA contribution is calculated using the following formula:

Net income = Excess Contribution × ((Adjusted Closing Balance − Adjusted Opening Balance) ÷ Adjusted Opening Balance)

The Adjusted Opening Balance is the sum of the excess contribution and the balance immediately before that excess contribution was made (that is, the balance at the start of the computation period).

The Adjusted Closing Balance is the balance immediately prior to distribution of the excess contribution (that is, the balance at the end of the computation period), plus any distributions or transfers made during the computation period.

3/6/2018

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