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# bailey benefit news



## IRS Modifies the HSA Contribution Limit for 2018 Back to \$6,900

In Revenue Procedure 2018-27, the Treasury Department and the IRS have determined that it is in the best interest of sound and efficient tax administration to allow taxpayers to treat the \$6,900 annual limitation originally published in Rev. Proc. 2017-37 as the 2018 inflation adjusted limitation on HSA contributions for eligible individuals with family coverage under an HDHP.

On March 2, 2018, the Treasury Department and the IRS released Rev. Proc. 2018-18, which superseded Rev. Proc. 2017-37, to reflect the statutory amendments to the inflation adjustments under the Act. Under section 4 of Rev. Proc. 2018-18, the annual limitation on deductions under section 223(b)(2)(B) for an individual with family coverage under an HDHP was \$6,850 for 2018 - a \$50 reduction from the limitation announced in Rev. Proc. 2017-37.

For calendar year 2018, taxpayers may treat \$6,900 as the annual limitation on deductions under section 223(b)(2)(B) for an individual with family coverage under an HDHP.

An individual who receives a distribution from an HSA of an excess contribution (with earnings) based on the \$6,850 deduction limit published in Rev. Proc. 2018-18 may repay the distribution to the HSA and treat the distribution as the result of a mistake of fact due to reasonable cause under Q&A-37 of Notice 2004-50, 2004-2 C.B. 196.

Accordingly, the portion of a distribution (including earnings) that an individual repays to an HSA by April 15, 2019, is not included in the individual's gross income under section 223(f)(2) or subject to the 20 percent additional tax under section 223(f)(4), and the repayment is not subject to the excise tax on excess contributions under section 4973(a)(5). Mistaken distributions that are repaid to an HSA are not required to be reported on Form 1099-SA or Form 8889 and are not required to be reported as additional HSA contributions. However, in accordance with Q&A-76 of Notice 2004-50, a trustee or custodian is not required to allow individuals to repay mistaken distributions.

Alternatively, an individual who receives a distribution from an HSA of an excess contribution (with earnings) based on the \$6,850 deduction limit published in Rev. Proc. 2018-18 and does not repay the distribution to the HSA may treat the distribution in accordance with section 223(f)(3), which describes the treatment of excess contributions returned before the due date of return. Thus, the excess contribution generally would not be included in gross income under section 223(f)(2) or subject to the 20 percent additional tax under section 223(f)(4), provided the distribution is received on or before the last day prescribed by law (including extensions of time) for filing the individual's 2018 tax return.

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