

Relief for Taxpayers Affected by the Reduced 2018 HSA Deduction Limits

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May 2, 2018

The IRS recently released guidance providing that taxpayers may, for 2018, treat \$6,900 as the maximum deductible health savings account ("HSA") contribution for family coverage under a high deductible health plan. This change is relevant to employers who sponsor a high deductible health plan and individuals who have contributed or have had contributions made on their behalf to an HSA for 2018.

As you may recall, the maximum had been abruptly reduced earlier this year to \$6,850 as a result of a change in the inflation adjustment calculations under the Tax Cuts and Jobs Act. The new IRS relief comes in response to reports of administrative and financial burdens triggered by the mid-year change, which left individuals, employers and administrators scrambling to respond as HSA participants who either had already made the maximum HSA contribution for 2018 or elected to make pre-tax HSA contributions based on the \$6,900 limit faced potential tax penalties due to excess contributions.

Employers who have already adjusted deferral elections made under a cafeteria plan to reflect the inflation-adjusted \$6,850 maximum need not take further action. However, individuals who receive distributions of excess HSA contributions based on the inflation-adjusted \$6,850 maximum will have a choice to make as to whether they want to repay that amount to their HSAs, rely on an exclusion from gross income afforded to a return of excess contributions or, if attributable to employer contributions, apply the distribution to qualified medical expenses. Employers who sponsor a high deductible health plan may want to inform their employees of this issue either directly or through their relevant service providers.

If you have any questions or compliance concerns, please contact our Employee Benefits group.

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