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Rev. Proc. 2018-27: Changes to HSA contribution limitation for 2018, relief measures

The IRS today released an advance version of Rev. Proc. 2018-27 to modify the annual limitation on deductions for contributions to health savings accounts (HSAs) allowed for individuals with family coverage under a “high deductible health plan” (HDHP) for calendar year 2018.

Background

Earlier this year, the IRS released Rev. Proc. 2018-18 with changes to reflect the amendments made to the tax rate schedules and to other amounts that taxpayers will use in filing their 2018 income tax returns (to be filed in 2019).

Rev. Proc. 2018-18 updated inflation adjustments released by the IRS in October 2017, and provided an annual limitation on deductions for an individual with family coverage under an HDHP was \$6,850 for 2018. This represented a \$50 reduction from the limit announced in Rev. Proc. 2017-37. Read [TaxNewsFlash](#)

Rev. Proc. 2018-27

Today's release—[Rev. Proc. 2018-27](#) [PDF 18 KB]—states that for 2018, taxpayers may treat \$6,900 as the annual limitation on the deduction for an individual with family coverage under an HDHP. No other changes were made to Rev. Proc. 2018-18.

Rev. Proc. 2018-27 states that an individual who receives a distribution from an HSA of an excess contribution (with earnings) based on the \$6,850 deduction limit may repay the distribution to the HSA and treat the distribution as the result of a mistake of fact, under the reasonable cause provision of Q&A-37 of Notice 2004-50. The portion that is repaid by April 15, 2019, is not included in the individual's gross income or subject to the 20% addition to tax under section 223(f)(4), and the repayment is not subject to the excise tax on excess contributions under section 4973(a)(5).

A trustee or custodian also 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 and who does not repay the distribution may treat the distribution under the rules of section 223(f)(3)—i.e., the excess contribution generally would not be included in gross income, or subject to the 20% addition to tax, provided that the distribution is received on or before the last day for filing the individual's income tax return for 2018. This treatment does not apply to distributions from an HSA that are attributable to employer contributions (e.g., “cafeteria plan” elections) if the employer does not include any portion of the contributions in the employee's wages because the employer treats \$6,900 as the annual limitation on deductions. In this situation, unless the distribution from the HSA is used to pay qualified medical expenses, the distribution is includable in the employee's gross income under section 223(f)(2) and is subject to the 20% addition to tax under section 223(f)(4).

Read a related IRS release—[IR-2018-107](#).

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