

Insights

IRS Reduces 2018 Limits for Health Savings Accounts and Adoption Credits

March 11, 2018

The Tax Cuts and Jobs Act signed by President Trump on December 22, 2017 included a requirement that modifications of cost-of-living adjustments be made to certain statutory limits based on the Chained Consumer Price Index for All Urban consumers (“C-CPI-U”). The Internal Revenue Service (“IRS”) released Revenue Procedure 2018-18 on March 5, 2018 that provided the results of the C-CPI-U adjustments. Limitations on two common employee benefits were affected: (1) health savings accounts and (2) adoption assistance programs.

Health Savings Accounts (“HSAs”)

An HSA is a tax-favored savings account established exclusively for the purpose of paying/reimbursing qualified medical expenses incurred by an HSA participant and his or her spouse and dependents. Amounts which remain unused at the end of the calendar year are carried over to reimburse any qualified medical expenses incurred in any subsequent year.

The family coverage limit for contributions to a health savings account for 2018 has been reduced by \$50 from the previously announced limit of \$6,900 to \$6,850. The self-only coverage limit remains at \$3,450 for 2018.

Employers who administer or contribute to HSAs will need to communicate this change as soon as possible to employees and re-calculate deductions based on the new limit for affected employees.

Adoption Assistance Programs

Employers may sponsor a tax-favored adoption assistance program that provides for payments or reimbursements for adoption expenses incurred by employees. The maximum amount of income that can be excluded by employees who adopt a special needs child under an adoption assistance program was reduced by \$30 from \$13,840 to \$13,810. The exclusion begins to phase out for employees with a modified adjusted gross income in excess of \$207,580 and completely phases out when modified adjusted gross income reaches \$247,580 for 2018.

Employers who offer adoption assistance programs will need to update their tracking systems to ensure the maximum amount of adoption expenses reimbursed or paid does not exceed the revised limit. Employers will also need to communicate the new limit to employees.

If you have any questions please contact a member of the Krieg DeVault LLP Employee Benefits Group.