

COMPLIANCE ALERT

IRS Announces Reductions to 2018 HSA and Adoption Credit Tax Limits

March 8, 2018

On March 5, the Internal Revenue Service released [Internal Revenue Bulletin 2018-10](#) which impacts the 2018 annual family contribution limit for health savings accounts, employer provided adoption credit programs, and adoption assistance programs. Revenue Procedure 2018-18 modifies the cost-of-living adjustments previously announced in 2017 with the following providing a summary of the annual limits for these specific benefit programs. Also included below is a summary of the 2018 high deductible health plan limits announced last year.

HDHP and Health Savings Account (HSA) Amounts

Under the guidance for the 2018 calendar year the maximum allowable annual contribution employees may make to their HSAs remains at \$3,450 for an individual with self-only coverage but has been reduced from \$6,900 to \$6,850 for an individual with family coverage. The minimum deductible and maximum out-of-pocket limits for high deductible health plans (HDHPs) remain the same. Effective for calendar year 2018:

- The minimum annual deductible for a plan to qualify as a HDHP is \$1,350 for self-only coverage and \$2,700 for family coverage;
- The maximum annual out-of-pocket limits allowable under an HDHP is \$6,650 for self-only coverage and \$13,300 for family coverage; and
- The maximum allowable annual contribution employees may make to their HSAs is \$3,450 for an individual with self-only coverage and \$6,850 for an individual with family coverage.

The 2018 HSA catch-up contribution limit for participants who are 55 or older on December 31, 2018, remains at an additional \$1,000 per year.

Adoption Credit/Adoption Assistance Programs

For employers providing an adoption credit program there is also a slight reduction in the available credit under the guidance. The maximum credit allowed under Code Section 23 has been reduced from \$13,840 to \$13,810 for taxable years beginning in 2018. The adoption credit will now begin to phase out for taxpayers with modified adjusted gross income in excess of

\$207,140 and is completely phased out for taxpayers with modified adjusted gross income of \$247,140 or more. Similarly, the maximum amount that an employer can exclude under Code Section 137 from an employee's income for adoption assistance benefits has also been reduced to \$13,810.

Flexible Spending Accounts and Qualified Transportation Fringe Benefit Programs

The 2018 contribution maximums for health care flexible spending accounts, dependent care assistance programs, and qualified transportation fringe benefit programs will remain the same and are as follows:

- **Health Care Flexible Spending Accounts** - For taxable years beginning in 2018, the dollar limit on employee contributions to an employer sponsored health care flexible spending account plan remains at \$2,650 per plan year.
- **Dependent Care Assistance Programs** - For taxable years beginning in 2018, the dollar limit on employee contributions to an employer sponsored dependent care assistance program remains at \$5,000 per calendar year. This limit is reduced to \$2,500 for married employees filing separate returns.
- **Qualified Transportation Fringe Benefit** - For taxable years beginning in 2018, the monthly dollar limit on employee contributions remains \$260 per month for the value of transportation benefits provided to an employee for qualified parking. The 2018 combined transit pass and vanpooling expense limit also continues at \$260 per month.

Next Step

Employers providing health savings account and/or adoption benefit programs to their employees will need to review and update their 2018 benefit materials and enrollment system rules and maximums. Participants whose current annual election will exceed the new maximum will need to be notified of the reduction in their contribution.

If you have any questions or need further details about the tax limits and how they will impact your employee benefit programs, please contact your Trion account team.

About Trion Group, a Marsh & McLennan Agency, LLC (Trion) *Compliance Alert*

Trion's *Compliance Alert* emails are provided with the understanding that they do not provide legal, accounting or other professional advice or service. While Trion strives to ensure the accuracy and completeness of these alerts, the publisher, authors, editors, and contributors of the contents are not responsible for any errors or omissions, or for the failure to report a change in any laws, decisions, regulations, interpretations or other pronouncements. Trion does not control or guarantee the accessibility, accuracy, relevance, timeliness, or completeness of outside information for which links may be provided, nor does it endorse any views expressed or products or services offered by such organization or authors.

The Patient Protection and Affordable Care Act is a complex law. Any statements made are based solely on our experience as consultants and should not be viewed as legal or tax advice. Marsh & McLennan Agency, LLC shall have no obligation to update this publication and shall have no liability to you or any other party arising out of this publication or any matter contained herein.

© 2018 Trion Group, a Marsh & McLennan Agency, LLC. All rights reserved.

