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IRS Recalculates 2018 Benefit Limits

Late last year, Congress enacted the Tax Cuts and Jobs Bill into law. As we discussed in prior posts, one of the changes affecting health and welfare plans is a change to the way the Internal Revenue Service calculates cost of living increases. Specifically, the Tax Cuts and Jobs Bill legislated that cost of living increases must use "Chained CPI." Chained CPI is a method of calculating inflation that takes into account the fact that as prices increase some consumers switch to lower priced products or substitute products, thereby reducing the effects of inflation. This means that over time Chained CPI will produce lower cost of living increases.

Today, the Internal Revenue Service released Revenue Procedure 2018-18 which recalculates a number of cost of living increases for calendar year 2018, as follows –

- The family HSA contribution for 2018 is reduced from $6,900 to $6,850.
- For employer adoption assistance programs, the maximum amount that can be excluded from an employee's gross income for qualified adoption expenses is reduced from $13,840 to $13,810. Further, the adjusted gross income threshold after which the adoption exclusion begins to phase out is reduced from $207,580 to $207,140.
- Health care FSA, transit and other benefit limits are not impacted.

The above changes apply to the 2018 calendar year. Employees contributing to an HSA should be informed of the reduced maximum limit, and adjustments in contributions for the remainder of 2018 may be needed. Employees who have already contributed the maximum amount for 2018, such as a one-time HSA contribution from a beginning of the year bonus payment, will need to receive a refund of the excess contribution.