

# CLIENT ALERTS

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## IRS Announces Employee Benefits Limits for 2018

5.3.2018

The Internal Revenue Service has recently announced cost-of-living adjustments applicable to dollar limitations for retirement plans (and other items) for 2018. Many of the retirement plan limitations will change for 2018 because the increase in the cost-of-living index met the statutory thresholds that trigger their adjustment. However, other limitations will remain unchanged because the increase in the index did not meet the statutory thresholds that trigger their adjustment.

### I. Retirement Plans

Some of the annual limits for 2018 (and the current limits for 2017) are as follows:

**2018**

**2017**

Elective Deferral Limit (for Internal Revenue Code (“Code”) Section 401(k), 403(b), 457(b)(2), 457(c), and SARSEP plans) – excluding catch-up contributions

**\$18,500**

**\$18,000**

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Elective Deferral Limit for SIMPLE plans

**\$ 12,500**

**\$ 12,500**

Catch-up Contribution Limit for Code Section 401(k), 403(b), 457(b) and SARSEP plans

**\$ 6,000**

**\$ 6,000**

Catch-up Contribution Limit for SIMPLE plans

**\$ 3,000**

**\$ 3,000**

Annual limitation for *defined contribution* plans under Code Section 415

**\$ 55,000**

**\$ 54,000**

Annual limitation for *defined benefit* plans under Code Section 415

**\$220,000**

**\$215,000**

Maximum compensation limit

**\$275,000**

**\$270,000**

Minimum dollar threshold to be considered highly compensated employee ("HCE") based on compensation

**\$120,000**

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Minimum dollar threshold for an officer of the employer to be considered a key employee for top heavy plans.

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**\$175,000**

**\$175,000**

Maximum Social Security taxable earnings (OASDI only)

**\$128,400[1]**

**\$127,200**

Maximum Medicare taxable earnings (HI only)

**No Limit**

**No Limit[2]**

Minimum compensation amount to be eligible for coverage under SEP

**\$ 600**

**\$ 600**

[1] On October 13, 2017, the Social Security Agency announced this figure would be \$128,700, but on November 27, 2017, the Social Security Agency announced the revised figure of \$128,400.

[2] The Medicare tax rate is 1.45% on wages (for employees) and 2.90% on self-employment income (for self-employed individuals). However, the Patient Protection and Affordable Care Act imposes an additional .9% Medicare tax on wages and self-employment income for tax years beginning after December 31, 2012. The additional tax applies to individuals with compensation in excess of certain threshold amounts (\$200,000 for single taxpayers, \$250,000 for married taxpayers filing a joint return, and \$125,000 for married couples filing separate returns). The new Medicare tax rate on wages and self-employment income in excess of the threshold amounts is 2.35% for employees and 3.8% for self-employed individuals.

### **II. Health Savings Accounts (HSAs)**

The new annual HSA (and High Deductible Health Plan (HDHP)) limits for 2018 (and the current limits for 2017) are as follows:

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**2018**

**2017**

HSA Contribution Limits:

Self-only

**\$ 3,450**

**\$ 3,400**

Family

**\$ 6,850/  
\$6,900 [3]**

**\$ 6,750**

Catch-up (for individuals age 55 or older)

**\$1,000**

**\$1,000**

HDHP Minimum Deductible:

Self-only

**\$1,350**

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**\$1,300**

Family

**\$ 2,700**

**\$ 2,600**

HDHP Out-of-Pocket Expense Limit (Deductibles, co-payments and other amounts, but not premiums)  
[4]:

Self-only

**\$ 6,650**

**\$ 6,550**

Family

**\$ 13,300**

**\$ 13,100**

[3] In May 2017 the IRS indicated this amount would be \$6,900 for 2018, but subsequently (March 5, 2018) the IRS recalculated this amount to be \$6,850 for 2018. Recently (April 26, 2018) the IRS acknowledged the administrative complexities involved in changing the limit during the year and indicated that *taxpayers may treat \$6,900 as the 2018 annual contribution limit for family coverage.*

The IRS stated that, by contrast, 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. Accordingly, the portion of a distribution (including earnings) that an individual repays to an HSA by April 15, 2019, is not included in the individual's gross income or subject to the 20 percent additional tax,

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and the repayment is not subject to the excise tax on excess contributions. Mistaken distributions that are repaid to an HSA are not required to be reported on Form 1099-SA or Form 8889 and are not required to be reported as additional HSA contributions. However, a trustee or custodian 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 does not repay the distribution to the HSA may treat the distribution as not included in gross income or subject to the 20 percent additional tax, provided the distribution is received on or before the last day prescribed by law (including extensions of time) for filing the individual's 2018 tax return.

[4] The HDHP out of pocket maximums for HSA/HDHP plans are lower than the Patient Protection and Affordable Care Act ("ACA") out of pocket maximums. For 2018, the ACA's out of pocket maximum is \$7,350 for self-only coverage and \$14,700 for family coverage. Employers offering HSA/HDHP plans will need to ensure they satisfy the lower Internal Revenue Service HDHP out of pocket maximums.

### III. Health Flexible Spending Accounts

The annual limit for 2018 for a health flexible spending account is increased to \$2,650. Presently, for 2017, the limit is \$2,600.

If you have questions regarding the Internal Revenue Service limits or other employee benefits matters, please contact your regular Butzel Long attorney, a member of the Butzel Long Employee Benefits Practice Group, or the author of this e-mail news alert.

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