IRS Announces 2016 Contribution Limits for HSAs

The Internal Revenue Service (IRS) has released the allowable contribution limits for health savings accounts (HSAs) for tax year 2016. The announcement also includes the new caps on out-of-pocket costs for high-deductible health plans.

Taxpayers must be enrolled in a high-deductible health plan (HDHP) in order to qualify to contribute to an HSA, which allows taxpayers to set aside money for possible medical expenses on a tax-deferred basis. Qualified taxpayers can contribute money to an HSA and deduct contributions. Withdrawals from HSAs to pay qualified health expenses are tax-free.

The new IRS release, Revenue Procedure 2015-30 establishes the new HSA contribution and out of pocket and deductible limitations - adjusted for inflation for the new calendar year. Here are the highlights:

**Total HSA contribution limits (combining employer and employee contributions)**

- There has been no change in individual contribution limits, which remain steady at $3,350 for 2016.
- HSA contribution limits for families will increase by $100, to a maximum of $6,750.

**Out of pocket limits for HDHPs**

The total out of pocket expense caps, including deductibles, co-payments and everything else the plan charges except premiums, have been increased for all plans.

- Individual caps on out-of-pocket expenses are increasing by $100, to $6,550 for 2016.
- For family plans, the maximum out-of-pocket expense for 2016 are increasing by $200, to $13,100.

Allowable catch-up contributions for those taxpayers age 55 or older who qualify to contribute to an HSA are unchanged at $1,000. The minimum allowable deductibles are likewise unchanged for 2016:

- The lowest allowable deductible for an individual in an HDHP is $1,300; for a family the smallest allowable deductible is $2,600 for the year 2016.

The increases reflect the government's modest assessment of cost of living increases over the last 12 months. The revisions are made under IRC Section 223's annual cost-of-living adjustment and rounding rules.
Nonqualified Withdrawal Penalties

While health savings accounts provide a powerful incentive for taxpayers to save for future health expenses, the IRS imposes a substantial penalty for anyone under age 65 who is not permanently and totally disabled who makes a withdrawal to pay for a non-qualified expenses:

Withdrawals made by those under 65 for nonqualified expenses are taxable as ordinary income. There is an additional penalty of 20 percent for nonqualified expenses.

For tax years 2015 and 2016, there was a divergence in the ACA’s definition of out of pocket limits for HDHPs and the IRS’s calculation of out of pocket limits, which it makes for the purposes of defining which high-deductible health plans qualify their participants to make contributions to health savings accounts.

For 2015, individual plans with out of pocket limits of $6,450 and family plans with out of pocket limits of $12,900 made the grade. For 2016, those limits increase to $6,550 and $13,100, respectively.

Recommendations

Any sponsors of high-deductible health plans should take note of these current and pending limits and update any and all plan and enrollment materials.

For more information, see IRS Revenue Procedure 2015-30.