



## **FAQ: One of our employees contributed too much to their HSA in 2022 due to Medicare enrollment. And we missed a 2022 employer contribution for another employee. Can these errors be corrected now?**

March 14, 2023

In both cases corrections are necessary. Generally, if the corrections are made **before the 2022 income tax filing deadline, which is April 18, 2023**, for most taxpayers, the process is greatly simplified. We can provide general information regarding the correction process for each situation. However, the employee and employer should consult with a tax advisor or counsel for specific advice and guidance.

### **Correction of Excess HSA Contribution**

The 2022 contribution limit is \$3,650 for self-only coverage and \$7,300 for any tier of coverage other than self-only. Those aged 55 and older by the 2022 calendar year-end are permitted an additional catch-up contribution of \$1,000.

Generally, an individual's maximum annual contribution is limited by the number of months they were eligible for the HSA. Medicare coverage is impermissible for HSA eligibility purposes. So, when an employee enrolls in Medicare mid-year, their HSA annual contribution limit must be prorated. For example, an employee who was otherwise HSA-eligible but enrolled in Medicare on July 1, 2022, could not contribute more than half of the applicable maximum for the coverage tier (\$1,825 for self-only coverage or \$3,650 for coverage other than self-only) plus half of the \$1,000 catch-up contribution (\$500).

An employee's HSA contribution that is greater than their 2022 applicable maximum is considered an "excess" contribution and should be removed from the HSA. Therefore, the employee should contact the HSA custodian promptly to request that the excess contribution and applicable earnings be removed from the HSA. These amounts would then be included in the employee's gross income. If the employee fails to remove the excess contribution by the income tax filing deadline, an additional 6% penalty applies for each tax year the excess remains in the account.

[IRS Publication 969 \(2022\), Health Savings Accounts and Other Tax-Favored Health Plans](#) provides further information on excess contributions.

### **HSA Contribution for a Prior Year**

Individuals who were HSA-eligible in 2022 have until the tax filing deadline to make or receive HSA contributions. So, 2022 HSA contributions, including employer contributions, must be made by **April 18, 2023**.

In the situation described, the employer should notify both the employee and HSA custodian that they will be making an HSA contribution for 2022. The employer should follow any specific instructions provided by the custodian to ensure the HSA contribution is designated for the prior year.

Both the employer and employee should review the proper reporting of the prior year HSA contribution with a tax advisor. Generally, the employer would report the prior year HSA contribution on the employee's 2023 Form W-2. The employee would include this prior year contribution (along with any other HSA contributions reported on their 2022 Form W-2) when completing the 2022 IRS Form 8889, which is used to report HSA contributions and distributions, and subtract it (from the HSA contribution amount reported on their 2023 Form W-2) when completing the 2023 IRS Form 8889.

Once the 2022 income tax filing deadline has passed, the employer can no longer make an HSA contribution for 2022.

**Accordingly, employers and employees should take action to address 2022 HSA contribution compliance failures before the tax filing deadline.**

For further information on HSAs, please contact your NFP consultant or broker for a copy of our publication, *Health Savings Accounts: A Guide for Employers*.

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