*Tax & Business Alert* – March 2022

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**Abstract:**

An employer-sponsored flexible spending account allows participants to pay health care costs with pre-tax dollars and be reimbursed, tax-free. Unused funds at year-end may be forfeited unless the plan includes one of two exceptions. In 2021, the IRS added some items to the list of qualifying expenses. This article gives details.

**Act fast and you may avoid forfeiting FSA funds**

Do you have a tax-saving flexible spending account (FSA) with your employer to help pay for health care expenses? For 2021, FSA participants could contribute up to $2,750 of pre-tax dollars to pay for medical expenses that might not otherwise be deductible (the amount rises to $2,850 for 2022). FSA contributions are also not subject to FICA taxes. Upon request, the plan reimburses participants for qualifying expenses, tax-free.

**What if you don’t spend it all?**

FSAs generally have a “use-it-or-lose-it” rule, which means you must incur qualifying medical expenditures by the end of the plan year (December 31 for a calendar year plan). Unused amounts when the plan year ends are generally forfeited — that is, unless the plan includes an optional grace period of up to 2½ months to incur qualifying expenses. For a 2021 calendar year FSA plan that has a grace period, that period will end on March 15, 2022. To avoid forfeiting FSA funds after March 15, participants in a calendar year plan will need to act fast to use their available funds for qualifying medical expenses.

**Good news!**

In 2021, the IRS added COVID-19-related expenses to the list of qualifying FSA expenses. That includes COVID-19 home tests and personal protective equipment such as masks, hand sanitizer and sanitizing wipes purchased for the primary purpose of preventing the spread of COVID-19. Participants can ask their employers for a list of qualifying expenses and the documentation required for reimbursement.

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