Tax & Business Alert – March 2022

244 words

Word count target: 200 to 250 words

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.