

IRS Announces Increase for 2018 Health FSA Contribution Maximum

The Internal Revenue Service (IRS) recently announced the annual inflation adjustment for flexible spending accounts (FSAs) for the 2018 tax year. Each year, the IRS sets the contribution limits for individuals based on the increase in the Consumer Price Index.

The 2018 dollar limitation for contributions to health FSAs is \$2,650, a slight increase from the current \$2,600 maximum. If both spouses have an FSA through their respective employers, they could each elect the maximum for \$5,300 per household.

Funds from Health FSA accounts can be used to pay for qualified medical expenses, including (but not limited to): deductibles, copays, and coinsurance (but not insurance premiums); insulin, bandages, and other pharmacy items; medical equipment like crutches, supplies like bandages, and diagnostic devices like blood sugar test kits; eye exams and vision expenses; and dental and orthodontic expenses. These funds can also be used to pay for some over-the-counter medications, but only if accompanied by a doctor's prescription.

A reminder that employers have the option to provide relief for FSA users who would otherwise have to forfeit funds not used by plan-year end: the \$500 rollover and the 2.5-month grace period. Note that employers can offer one of these options, not both. They may also elect to offer neither option. The \$500 Rollover allows individuals to move up to \$500 of the previous plan year's contribution into next year's allocation (without counting against the overall contribution limit) to avoid forfeiting money at year end. The FSA Grace Period gives individuals 2.5 months after the last day of their plan years to spend down their remaining FSA funds from the prior year.

The 2018 Dependent Care FSA maximum annual contribution will remain the same at \$5,000. These accounts reimburse the employee for employment-related dependent care while the plan participant and spouse work (or look for work), such as payments to a daycare center or babysitter, or expenses to care for a disabled spouse or other tax dependent.

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