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IRS Announces 2018 Health FSA Limits

In Revenue Procedure 2017-58, the IRS sets forth a variety of 2018 adjusted tax limits. Among other things, the notice addresses slightly increased limits for employer contributions toward health flexible spending accounts (FSAs). Therefore, employers who currently offer health FSAs may choose to increase the annual election limit for participants for the 2018 plan year.

HEALTH FLEXIBLE SPENDING ACCOUNT (FSA) – 2018 ANNUAL LIMITATION OF \$2,650

Healthcare reform imposed a \$2,500 limit on annual salary reduction contributions to health FSAs offered under §125 (Cafeteria) plans, effective for plan years beginning after December 31, 2012. The \$2,500 amount is indexed for cost-of-living adjustments. The annual limitation for 2017 was \$2,600. The annual limitation has now increased to \$2,650 for 2018.

EMPLOYEE HEALTH FSA CONTRIBUTIONS

The \$2,650 annual limit applies only to the amount that can be deducted pre-tax from an employee's compensation to make employee contributions through a cafeteria plan. In some circumstances an employee can have a health FSA benefit of greater than \$2650, for example:

- If the employer makes contributions to the employee's FSA accounts (see more below); or
- If the health FSA includes the optional \$500 carry-over provision and the employee has a carry-over from the previous year.

EMPLOYER HEALTH FSA CONTRIBUTIONS

Employer contributions to an employee's health FSA are not limited by this rule, and may be made in addition to the \$2,650 allowed for employee contributions. However, a health FSA must meet "excepted benefit" status to avoid violating health care reform requirements. To meet excepted benefit status, the health FSA must satisfy the following two conditions:

- **Maximum Benefit Condition.** The maximum benefit payable under the health FSA to any participant cannot exceed two times the participant's salary reduction election, or, if greater, the amount of the participant's salary reduction election plus \$500. In other words, the employer could either make a matching contribution or limit the contribution to \$500.
- **Availability Condition.** Other non-excepted group health plan coverage (e.g., major medical coverage) must be made available for the year to those eligible to participate in the health FSA. Therefore, individuals must be *eligible* for both a group medical plan and a health FSA, but they do not have to be *enrolled* in both.

The full text of Rev. Proc. 2017-58, including 2018 amounts and limitations for other taxes, may be found at <https://www.irs.gov/pub/irs-drop/rp-17-58.pdf>.

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