



## THE TAX BENEFITS OF FLEXIBLE SPENDING ACCOUNTS

Flexible spending accounts, or FSAs, provide you with an important tax advantage that can help you pay health care and dependent care expenses on a pre-tax basis. By anticipating your family's health care and dependent care costs for the next plan year, you can lower your taxable income.

Essentially, the Internal Revenue Service (IRS) set up FSAs as a means to provide a tax break to employees and their employers. As an employee, you agree to set aside a portion of your pre-tax salary in an account, and that money is deducted from your paycheck over the course of the year. The amount you contribute to the FSA is not subject to social security (FICA), federal, state or local income taxes—effectively adjusting your annual taxable salary. The taxes you pay each paycheck and collectively each plan year can be reduced significantly, depending on your tax bracket. As a result of the personal tax savings you incur, your spendable income will increase.



### AN EXAMPLE: HOW AN FSA SAVES \$\$\$

Bob and Jane's combined gross income is \$30,000. They are married and file their income taxes jointly. Since Bob and Jane expect to spend \$3,000 in medical expenses in the next plan year, they decide to direct a total of \$2,850 into their FSAs.

See the table to see their savings.

*\* Assumes standard deductions and four exemptions*

*\*\* Varies, assumes 3%*

*This example is for illustrative purposes only. Every situation varies and it is recommended you consult a tax advisor for all tax advice.*

	Without FSA	With FSA
Gross income	<b>\$30,000</b>	<b>\$30,000</b>
FSA contributions	\$0	-\$2,850
Gross income	\$30,000	\$27,150
<b>Estimated taxes</b>		
Federal	-\$2,550*	-\$1,776*
State	-\$900**	-\$750**
FICA	-\$2,295	-\$1,913
<b>After-tax earnings</b>	<b><u>\$24,255</u></b>	<b><u>\$22,711</u></b>
Eligible out-of-pocket medical and dependent care expenses	-\$3,000	-\$150
Remaining spendable income	<b>\$21,255</b>	<b>\$22,561</b>
<b>Spendable income increase</b>	<b>--</b>	<b>\$1,306</b>

# THE TAX BENEFITS OF FLEXIBLE SPENDING ACCOUNTS

EMPLOYEE EDUCATION

## THE HEALTH CARE REIMBURSEMENT FSA

The health care reimbursement FSA lets you pay for certain IRS-approved medical care expenses not covered by your insurance plan with pre-tax dollars. For example, cash that you now spend on deductibles, copayments or other out-of-pocket medical expenses can instead be placed in the health care reimbursement FSA pre-tax. The annual maximum contribution to the health care reimbursement FSA in 2023 is \$3,050

### Health FSAs employ a “use-it-or-lose-it” model.

If you do not use the funds that you contribute to your FSA within the end of the year, you will have to forfeit those funds. However, employers also have the option of allowing employees to carry over up to \$610 of unused funds from 2023 to the 2024. In addition, any amount that is carried over does not count toward the maximum contribution limit.

## HEALTH CARE FSA ELIGIBLE EXPENSES

Eligible health care expenses for the health care reimbursement FSA include more than just your deductible and copayments. You can also reimburse items such as:

- prescription drugs
- dental expenses
- eye glasses and contacts
- certain medical equipment
- many more items

For more information about eligible medical expenses, please refer to IRS Publication 502, Medical and Dental Expenses, available at [www.irs.gov/publications/p502/index.html](https://www.irs.gov/publications/p502/index.html).

Claims for over-the-counter medication or drug expenses (other than insulin) can only be reimbursed if the patient has a prescription. This does not apply to items for medical care that are not considered medication or drugs such as crutches, bandages, and diagnostic devices such as blood sugar test kits.



## THE DEPENDENT CARE FSA

The Dependent Care FSA lets you use pre-tax dollars toward qualified dependent care. The annual maximum amount you may contribute is \$5,000 (or \$2,500 if married and filing separately) per calendar year.

If you elect to contribute to the dependent care FSA, you may be reimbursed for:

- The cost of child or adult dependent care
- The cost for an individual to provide care either in or out of your house
- Nursery schools and preschools (excluding kindergarten)

## DEPENDENT CARE ELIGIBLE EXPENSES

In order for dependent care services to be eligible, they must be:

- for the care of a tax-dependent child under age 13 who lives with you
- or a tax-dependent parent, spouse or child who lives with you and is incapable of caring for himself or herself
- necessary so that you and your spouse (if applicable) can go to work
- given during normal working hours
- cannot be provided by another of your dependents

## IS THE FSA PROGRAM RIGHT FOR ME?

The flexible spending accounts are beneficial for anyone who has out-of-pocket medical, dental, vision, hearing or dependent care expenses beyond what their insurance plan covers.

It's easy to determine if an FSA will save you money. At enrollment time, simply:

- determine your annual election amount
- estimate the expenses that you know will occur during the year
  - include out-of-pocket expenses for yourself and anyone claimed as a dependent on your taxes

If you had \$100 or more in recurring or predictable expenses, the accounts can help you stretch your dollars.

## HOW DO FSAS WORK?

If you decide to enroll in one or both of the accounts, your contributions are taken out of each paycheck—before taxes—in equal installments throughout the plan year. These dollars are then placed into your FSA. When you have an eligible health care or dependent care expense, you must submit a claim form along with an itemized receipt to be reimbursed from your account.

The health care reimbursement FSA will reimburse you for the full amount of your annual election (less any reimbursement already received), at any time during the plan year, regardless of the amount actually in your account. The dependent care FSA will only reimburse you for the amount that is in your account at the time you make a claim.

## flexible spending accounts

FSAs

### advantages & disadvantages

<b>SAVE MONEY</b> An FSA is an employer-sponsored savings account that allows you to put aside money tax-free to pay for qualified expenses.	<b>PLAN CAREFULLY</b> If you don't use the money in your FSA by the end of the plan year, you lose it.
<b>TAX SAVINGS</b> Contributions are made with pre-tax dollars. Since your taxable income is decreased by your contributions, you pay less in taxes.	<b>NOT PORTABLE</b> If you change jobs, you typically forfeit the funds left in your FSA.
<b>FLEXIBLE</b> Withdraw health FSA funds at any time for qualified medical expenses, even if you haven't contributed the entire yearly amount yet.	<b>PROOF REQUIRED</b> You must fill out all the necessary forms and show receipts for FSA-eligible purchases in order to be reimbursed.

**QUESTIONS? Reach out to HR.**