

Flexible Spending Accounts: New Opportunities Are Available to Your Employees

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Many firms offer employees the opportunity to pay for certain medical and dependent care expenses with pre-tax dollars through the use of flexible spending accounts (FSAs). The resulting tax savings can be substantial.

As a consequence of the pandemic, many such accounts were overfunded in 2020 for reasons such as the deferral of medical procedures, or the closure of a child's summer camp. Historically, with limited exceptions, unused funds have always been forfeited.

Since Congress recognized that the forfeiture of account balances would place an unfair financial burden on taxpayers through no fault of their own, legislation was recently passed that offers relief to employees, as follows:

Medical FSAs

- If your plan currently offers employees the ability to carry over up to \$550 of unused funds into subsequent years, the carryover amount will instead be unlimited for the 2020 and 2021 plan years.
- If your plan instead offers employees a two and one-half month grace period

to utilize FSA funds (e.g. until March 15, 2021 for the 2020 plan year), that grace period will become twelve months for the 2020 and 2021 plan years (i.e. December 31, 2021 for the 2020 plan year, and December 31, 2022 for the 2021 plan year).

Dependent Care FSAs

Dependent care FSAs have never permitted carryovers or grace periods, but for the 2020 and 2021 plan years, they will be able to offer the same advantages as medical FSAs as described above.

Other opportunities are available to employees as well. Laws governing employee benefit plans are complex, and plan documents will need to be amended to accommodate any changes. Please consult with your plan administrator or your Anchin Relationship Partner for further information.