

Contribute up to \$2,550; \$500 Carryover Option Available to Many

The Internal Revenue Service today reminded eligible employees that now is the time to begin planning to take full advantage of their employer's health flexible spending arrangement (FSA) during 2016.

FSAs provide employees a way to use tax-free dollars to pay medical expenses not covered by other health plans. Because eligible employees need to decide how much to contribute through payroll deductions before the plan year begins, many employers this fall are offering their employees the option to participate during the 2016 plan year.

Interested employees wishing to contribute during the new year must make this choice again for 2016, even if they contributed in 2015. Self-employed individuals are not eligible.

An employee who chooses to participate can contribute up to \$2,550 during the 2016 plan year. Amounts contributed are not subject to federal income tax, Social Security tax or Medicare tax. If the plan allows, the employer may also contribute to an employee's FSA.

Throughout the year, employees can then use funds to pay qualified medical expenses not covered by their health plan, including co-pays, deductibles and a variety of medical products and services ranging from dental and vision care to eyeglasses and hearing aids. Interested employees should check with their employer for details on eligible expenses and claim procedures.

Under the use or lose provision, participating employees often must incur eligible expenses by the end of the plan year, or forfeit any unspent amounts. But under a special rule, employers may, if they choose, offer participating employees more time through either the carryover option or the grace period option.

Under the carryover option, an employee can carry over up to \$500 of unused funds to the following plan year—for example, an employee with \$500 of unspent funds at the end of 2016 would still have those funds available to use in 2017. Under the grace period option, an employee has until 2½ months after the end of the plan year to incur eligible expenses—for example, March 15, 2017, for a plan year ending on Dec. 31, 2016. Employers can offer either option, but not both, or none at all. Employers are not required to offer FSAs.