

COMPLIANCE ALERT

2024 HEALTH FSA & QUALIFIED TRANSPORTATION LIMITS

Issue Date: November 2023

In Revenue Procedure 2023-24, the IRS sets forth a variety of 2024 adjusted tax limits. Among other things, the notice indicates that employee contribution limits toward health flexible spending arrangements (health FSAs) and qualified transportation fringe benefits will increase for 2024. The limit on annual employee contributions toward health FSAs for 2024 is \$3,200 (increased from \$3,050 in 2023), with the ability to carryover up to \$640 (increased from \$610 in 2023). The limit on monthly contributions toward qualified transportation and parking benefits for 2024 is \$315 (increased from \$300 in 2023).

The full text of Rev. Proc. 2023-24, including 2024 amounts and limitations for other taxes, may be found at: <https://www.irs.gov/pub/irs-drop/rp-23-34.pdf>.

HEALTH FLEXIBLE SPENDING ARRANGEMENTS (FSAS)

The 2024 annual contribution limit of \$3,200 for health FSAs applies to employee salary reductions. The same limit applies for general-purpose and limited-purpose health FSAs. Employer contributions are not subject to the limit, but are subject to different restrictions under healthcare reform rules.

NOTE: Annual dependent care assistance program (DCAP) reimbursement limits are set by statute and not subject to inflationary adjustments, and therefore remain at \$5,000 for single taxpayers and married couples filing jointly, or \$2,500 for married people filing separately.

HEALTH FLEXIBLE SPENDING ARRANGEMENTS (FSAS)

Employee contributions subject to the \$3,200 annual limit include:

- + Amounts deducted pre-tax from an employee's compensation through a cafeteria plan; and
- + Employer flex credits that the employee has the option to use toward cash or other taxable benefits.

TIPS FOR EMPLOYEE HEALTH FSA CONTRIBUTIONS

- + Employees may elect up to \$3,200 in 2024 even if they've carried over up to \$610 from the 2023 plan year.
- + Employees who join mid-plan year may elect up to \$3,200 for the remainder of the plan year. The annual contribution limit is required to be prorated only when the employer runs a short plan year (<12 months) for all participants.
- + The limit applies per employee, rather than on a household basis, so if both spouses are employed and eligible for health FSA coverage, each spouse could contribute up to \$3,200 for 2024.
- + The limit applies on a per employer basis, so an employee who works for two separate employers that are unrelated (i.e., not part of a controlled group or affiliated service group due to common ownership or shared services), whether simultaneously or at different times during the same plan year, may elect up to \$3,200 under each employer's health FSA.



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EMPLOYER HEALTH FSA CONTRIBUTIONS

Employer contributions may be made in addition to the \$3,200 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:

- 1. Maximum Benefit Condition.** The maximum benefit payable under the health FSA to any participant cannot exceed the greater of: (i) 2x the participant's salary reduction election; or (ii) the amount of the participant's salary reduction election plus \$500. In other words, the employer can contribute up to \$500 or a match of the employee's contribution (up to \$3,200 for 2024), whichever is greater.
- 2. 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. Individuals must be eligible for both a group medical plan and a health FSA, but they do not have to be enrolled in both.

CARRYOVERS AND GRACE PERIODS

The combination of employee and employer contributions elected for the plan year must be made available throughout the plan year to reimburse qualifying medical expenses, even if the amounts have not yet been contributed (the "uniform coverage" rule). If an employee exhausts the funds and then terminates participation mid-plan year, the employer cannot request repayment. However, if the employee does not incur enough expenses during the plan year to exhaust the amounts contributed, the employee will forfeit the remaining balance (the "use-or-lose" rule) subject to any grace period or carryover provision in place for the plan. Plans can have up to a 2 1/2-month grace period, or a carryover of up to \$640 (for 2024), but never both.

QUALIFIED TRANSPORTATION BENEFITS (TRANSPORTATION & PARKING)

Instead of annual contribution limits, qualified transportation fringe benefits are subject to monthly limits. The 2024 monthly limit of \$315 applies separately to:

- + qualified parking; and
- + the combination of commuter highway vehicles and transit passes.

An employee could elect up to \$315/month for each (or could elect up to \$630/month to use toward a combination of transportation and parking benefits). For qualified transportation fringe benefits, both employee and employer contributions count toward the monthly limit.

Just like contribution limits apply monthly, employees generally have an opportunity to change elections monthly (or even more frequently). Unused contributions cannot be cashed out, but they can be used in subsequent months. So, if an employee fails to use all amounts contributed for qualified transportation or parking benefits and then terminates coverage, the leftover amounts would be forfeited. But if the employee continues participation in the plan, and perhaps reduces contributions for future months, unused amounts from one month may be used for coverage in later months (up to \$315 in any given month).

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