

LEGAL UPDATE



IRS RELEASES HEALTH FSA LIMIT FOR 2025

On Oct. 22, 2024, the IRS released [Revenue Procedure 2024-40](#) (Rev. Proc. 24-40), which includes the inflation-adjusted limit for 2025 on employee salary reduction contributions to health flexible spending accounts (FSAs). For plan years beginning in 2025, the adjusted dollar limit on employees' pre-tax contributions to health FSAs increases to \$3,300. This is a \$100 increase from the 2024 health FSA limit of \$3,200.

The Affordable Care Act (ACA) imposes a dollar limit on employees' salary reduction contributions to health FSAs. This limit started at \$2,500 for plan years beginning on or after Jan. 1, 2013, and has been adjusted for inflation for subsequent plan years. Employers should ensure their health FSAs will not allow employees to make pre-tax contributions over \$3,300 for the 2025 plan year. Employers can impose a lower limit on employees' pre-tax contributions to a health FSA.

Employers should confirm their health FSA contribution limit is included in the plan's documents and communicate it to employees at enrollment time.

PRE-TAX CONTRIBUTIONS

The ACA's dollar limit applies only to employees' pre-tax contributions to a health FSA. Nonelective employer contributions to a health FSA (for example, matching contributions or flex credits) generally do not count toward the health FSA contribution limit. However, if employees may elect to receive the employer contributions in cash or as a taxable benefit, then the contributions must be treated as salary reductions and counted toward the health FSA contribution limit.

PER-EMPLOYEE LIMIT

The health FSA limit applies on an employee-by-employee basis. Each employee may only elect up to \$3,300 in salary reductions in 2025, regardless of whether they have family members who benefit from the funds in that FSA. However, each family member eligible to participate in their own health FSA has a separate limit. For example, a married couple who have their own health FSAs can both make salary reductions of up to \$3,300 for 2025, subject to any lower employer limits.

HEALTH FSA CARRYOVERS

As an exception to the use-or-lose rule, employers with health FSAs may allow employees to carry over a certain amount of funds remaining at the end of a plan year to reimburse eligible expenses incurred in the plan year immediately following. The maximum carryover amount is adjusted annually for inflation. For 2025, Rev. Proc. 24-40 increases the maximum carryover limit to \$660 (from \$640 for 2024). Employers that allow carryovers may impose their own limit that is lower than the maximum carryover limit.

HIGHLIGHTS

- + The health FSA dollar limit increases to \$3,300 for plan years beginning in 2025.
- + Employers may impose their own dollar limit on employee salary reduction contributions to health FSAs, up to the ACA's maximum.
- + Employers should communicate their 2025 limit to employees as part of the open enrollment process.
- + The limit on health FSA carryovers increases to \$660 for plan years beginning in 2025.

