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Automation Alley Newsletter - IRS Provides Transition Rules for \$2,500 Health Flexible Spending Account Limit Beginning in 2013

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Currently, employers which sponsor cafeteria plans with health care flexible spending accounts ("FSA") establish the maximum dollar amount their eligible employees are permitted to contribute to their FSAs. These limits often start out low and increase over time and can range from a few hundred dollars to \$5,000-10,000 or more. But the government does not impose a statutory limit. In 2013, this will change. The Patient Protection and Affordable Care Act amended the Internal Revenue Code to add a section to the cafeteria plan rules (Section 125(i)) which provides that an employee may not elect for any taxable years beginning after December 31 2012, to have salary reduction contributions in excess of \$2,500 made to any health care FSA. In recently issued Notice 2012-40, the IRS has provided implementation guidance for FSA plan sponsors on this new rule.

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