PERSONAL FINANCE

The rules for flexible spending accounts are more generous (for now). Here's what to know

PUBLISHED FRI, MAR 12 2021•3:14 PM EST

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KEY POINTS

- The American Rescue Plan increased the amount that employers can let workers put in their dependent-care flexible spending accounts for 2021.
- Separate legislation adopted in December provided other flexibility for FSAs, regardless of the type.
- Companies are not required to adopt any of the allowed changes.

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The rules governing flexible spending accounts are temporarily more generous to workers, thanks to two pieces of legislation.

The American Rescue Plan — the $1.9 trillion Covid-relief package signed into law on Thursday by President Joe Biden — boosts the amount that companies can let workers put in their dependent-care FSAs for 2021. Separately, legislation adopted late last year has loosened the rules for both dependent-care and health FSAs for a time as well.

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FSAs let workers stash away pre-tax money for qualifying medical or child-care expenses. Last year, 46% of workers had access to a health FSA and 43% to a dependent care FSA, according to the Bureau of Labor Statistics.

Yet as the pandemic rolled across the nation in 2020, some households saw their FSA dollars remain unspent as medical appointments were canceled or delayed and child-care facilities closed. Here's what to know about the changes if your company chooses to adopt them.

The details

For starters, the limit on contributions to dependent-care FSAs is much higher in 2021, under the newest legislative relief package. For married couples filing joint tax returns, the cap is $10,500, up from $5,000. For single filers, the limit is $5,250, up from $2,500.

The limit for health FSAs in 2021 is $2,750 — unchanged from 2020 and unaffected by the latest stimulus bill.

Separately, the rules regarding carrying over unused FSA funds from one year to the next have changed for now.

VIDEO 01:34
Child care centers struggle during the pandemic

Regardless of which type of FSA you have, the Consolidated Appropriations Act — signed into law in December — temporarily allows you to roll over any unused funds. (Again, if your company opts in.)

"Employees may carry over all or some of their unused health and/or dependent care FSA funds from a plan year ending in 2020 or 2021," explained Marcia Wagner, founder of The Wagner Law Group.

Typically, you cannot carry over any unused funds from year to year in a dependent-care FSA, and carryover amounts for health FSAs are limited ($550 without the reprieve) — although they are allowed to offer a grace period of up to 2.5 months for you to spend the money.

Under the temporary rules, employers don't have to require you to spend carried-over health dollars within that time frame.

For plans following the calendar year, that deadline would be March 15 — which is Monday. With that date approaching, you likely would have heard from your company by now if it is extending the grace period. However, it's worth confirming if you're unsure.

" — Rachel Rouleau VICE PRESIDENT OF COMPLIANCE FOR HEALTH-E COMMERCE

"You should always check with your employer about your deadlines and whether extension options apply to you," said Rachel Rouleau, vice president of compliance for Health-E Commerce.

The temporary rules also allow you to make mid-year changes to your contributions for either type of FSA, which typically is not permitted unless there's a qualifying life change like marriage or the birth of a child. The IRS also allowed this in 2020, Rouleau said.

Additionally, if you leave your company, you can now continue to access your FSA for the rest of the year, Rouleau said. Typically, you'd lose access to your FSA unless you stayed on your employers health plan under COBRA, which allows workers to stay on their ex-employer's insurance for up to 18 months.

Employers that want to offer any of these FSA relief options would need to amend their plan, although the amendment can be retroactive.

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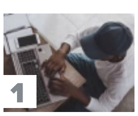

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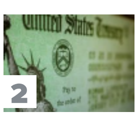

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