

## IRS ALLOWS MIDYEAR CHANGES TO FLEXIBLE SPENDING ACCOUNTS FOR HEALTH COVERAGE & DEPENDENT CARE ELECTIONS

As part of its response to the coronavirus pandemic, the IRS announced it is allowing changes during 2020 for employee elections under a Sec. 125 cafeteria plan during calendar year 2020 for employer-sponsored health coverage, health flexible spending arrangements (FSAs), and dependent care assistance programs.

For midyear elections made during calendar year 2020, a Sec. 125 cafeteria plan may permit employees who are eligible to make salary reduction contributions under the plan to:

- **For employer-sponsored health coverage**, (1) make a new election on a prospective basis if the employee initially declined to elect employer-sponsored health coverage; (2) revoke an existing election and make a new election to enroll in different health coverage sponsored by the same employer on a prospective basis; and (3) revoke an existing election on a prospective basis, provided that the employee attests in writing that the employee is enrolled, or immediately will enroll, in other health coverage not sponsored by the employer;

- **For flexible spending accounts (FSA)**, Revoke an election, make a new election, or decrease or increase an existing election applicable to a health FSA on a prospective basis; and

- **For Dependent Care**, Revoke an election, make a new election, or decrease or increase an existing election regarding a dependent care assistance program on a prospective basis.

IRS Notice 2020-29 also gives increased flexibility for grace periods to apply unused amounts in health FSAs to medical care expenses incurred through Dec. 31, 2020, and unused amounts in dependent care assistance programs to dependent care expenses incurred through Dec. 31, 2020. For amounts that are unused and that remain in a health FSA or a dependent care assistance program under the Sec. 125 cafeteria plan as of the end of a grace period or plan year ending in 2020, a Sec. 125 cafeteria plan may permit employees to apply those unused amounts to pay or reimburse medical care expenses or dependent care expenses, respectively, incurred through Dec. 31, 2020.

The relief in Notice 2020-15 regarding high-deductible health plans (HDHPs) and COVID-19 expenses and allowing telehealth and other remote care services to qualify as expenses reimbursable by HDHPs, may be applied retroactively to Jan. 1, 2020.

In Notice 2020-33, the IRS increased the carryover limit from \$500 to \$550 of unused amounts in a health FSA under a Sec. 125 cafeteria plan as of the end of a plan year. (Starting with plan year 2020, the maximum unused amount of \$550 will be allowed to be carried over to the immediately following plan year 2021). The maximum carryover amounts going forward may increase based on the maximum salary reduction contribution allowed for the year. The plan must be amended to reflect this change.

Notice 2020-33 also allows a health plan to reimburse individual insurance policy premium expenses incurred before the beginning of the plan year for coverage provided during the plan year. This provision will assist with implementing individual coverage health reimbursement arrangements.

If you have any question or need further assistance, please don't hesitate to contact us.

Source: Internal Revenue Service, May 20, 2020