

LEGAL UPDATE

Health FSA Limit will Remain the Same for 2021

The Affordable Care Act (ACA) imposes a dollar limit on employees' salary reduction contributions to health flexible spending accounts (FSAs) offered under cafeteria plans. This dollar limit is indexed for cost-of-living adjustments and may be increased each year.

On Oct. 27, 2020, the IRS released [Revenue Procedure 2020-45](#) (Rev. Proc. 20-45), which announced that the health FSA dollar limit on employee salary reduction contributions will **remain at \$2,750 for taxable years beginning in 2021**. It also includes annual inflation-adjusted numbers for 2021 for a number of other tax provisions.

Employers should ensure that their health FSAs will not allow employees to make pre-tax contributions in excess of \$2,750 for the 2021 plan year, and communicate the 2021 limit to their employees as part of the open enrollment process.

Employer Limits

An employer may continue to impose its own dollar limit on employees' salary reduction contributions to health FSAs, as long as the employer's limit does not exceed the ACA's maximum limit in effect for the plan year. For example, an employer may decide to limit employee health FSA contributions for the 2021 plan year to \$2,500.

Per Employee Limit

The health FSA limit applies on an employee-by-employee basis. Each employee may only elect up to \$2,750 in salary reductions in 2021, regardless of whether he or she also has family members who benefit from the funds in that FSA. However, each family member who is eligible to participate in his or her own health FSA will have a separate limit. For example, a husband and wife who have their own health FSAs can both make salary reductions of up to \$2,750 per year, subject to any lower employer limits.

Highlights

- The IRS announced that the health FSA dollar limit will remain at \$2,750 for 2021.
- Employers may continue to impose their own dollar limit on employee salary reduction contributions to health FSAs, up to the ACA's maximum.
- Employers should communicate their 2021 limit to their employees as part of the open enrollment process.

The health FSA dollar limit on employee salary reduction contributions will remain at \$2,750 for taxable years beginning in 2021.

Provided to you by **Brown & Brown**

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