



### A Flexible Spending Account

(FSA) is a tax-advantaged account set up through an employer. An FSA allows an employee to set aside a portion of his or her income to pay for qualified health care, or dependent care expenses. Money deducted from an employee's income, for an FSA account, is not subject to payroll taxes, resulting in a substantial payroll tax savings.

### Flexible Spending Accounts

There are two different flexible spending accounts available. One is for qualified health care expenses and the other is for qualified dependent care expenses. There is a yearly maximum on the amount of money that can be deferred into an FSA account, which is set by the employer for a health care FSA. The dependent care maximum is \$5,000, which is set by the IRS. Both types of accounts can be used concurrently.

An FSA account allows money to be deducted from an employee's income, pre-tax to cover qualified expenses. It is important to note that the money must be spent within the plan year. Any money left unspent at the end of the year is forfeited. This is known as the "use it or lose it" provision. In 2005, Congress passed an optional 2 1/2 month grace period that employers can adopt in their plans, allowing use of the funds for 2 1/2 months after the end of the plan year. The annual contribution amount must also remain the same throughout the year unless certain qualifying events occur, such as birth of a child or death of a spouse.

Tax Savings example: A person in the 28% Federal tax bracket, with a 4% state tax, along with the FICA and Medicare taxes of typically 7.625%, for a total of almost 40%, who has \$2,000 deducted and put into an FSA for health or dependent care would result in almost \$800 in tax savings. If this example person had not utilized the FSA, they likely would not have been able to deduct this \$2,000 expense because it would not have met the 7.5% of Adjusted Gross Income threshold needed to be able to deduct it on their federal tax return. If the same person had \$5,000 in dependent care expenses, and put that much into their dependent care FSA, the tax savings would be \$2,000.

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