FLEXIBLE SPENDING ACCOUNT (FSA)

OVERVIEW

What is an FSA?

A tax-advantaged account for employees to save pre-tax dollars for qualified healthcare and dependent care expenses.

How FSAs Work

Employee Contributions: Pre-tax salary contributions.

Qualified Expenses: Medical, dental, vision, and dependent care costs.

Use-It-Or-Lose-It Rule: Unused funds are forfeited at year-end, with some plans offering a grace period or carryover option (up to **$610 in 2024**).

Reimbursement: Submit claims for eligible expenses to get reimbursed.

Requirements for Companies

Plan Document: Outlines terms, eligibility, and covered expenses.

Administration: Manage contributions, claims, and IRS compliance.

Communication: Inform employees about enrollment, eligible expenses, and deadlines.

Tax Benefits

Employees:	Reduces taxable income.
Employers:	**Saves on payroll taxes.**

Pros and Cons

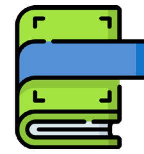
Pros

- Tax savings for both employees and employers.
- Helps budget for predictable expenses.
- Immediate access to full annual contribution.

Cons

- Risk of losing unused funds.
- Administrative burden for employers.
- Requires accurate expense estimation.

Example (2024)



Scenario:
Grace contributes **$2,050** to her **FSA**.

Contribution:
Reduces taxable income to **$47,950**.

Expenses:
$1,700 in medical costs reimbursed.

Remaining Funds:
$350 carried over to the next year.

Tax Savings:
Saves **$451** in federal taxes **(22% tax rate)**.

Summary

FSAs provide tax advantages and help manage healthcare and dependent care expenses but require careful planning and administration.

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