Limitation on Health Flexible Spending Arrangements Under Cafeteria Plans

Summary: Limits the amount of contributions to health Flexible Spending Arrangements (FSAs) under cafeteria plans to $2,500 per year.

Next steps:
- January 1, 2013 – Provision goes into effect
- January 1, 2014 and each year thereafter – Indexing of the limit in effect

Additional information:
- Internal Revenue Service (IRS) publication 969 (related to FSAs) -- http://www.irs.gov/publications/p969/ar02.html

Long summary:
Sec. 9005. Limitation on health flexible spending arrangements (FSAs) under cafeteria plans (as modified by sec. 1403 of HCERA).
Limits salary reductions for a taxable year to an employee’s health FSA through a cafeteria plan to $2,500. Indexes the limit amount to the Consumer Price Index – All Urban Customers (CPI-U) for years after December 31, 2013, rounded to the next lowest multiple of $50.

Effective date. Effective for taxable years after December 31, 2012.

Legislative text:
SEC. 9005. LIMITATION ON HEALTH FLEXIBLE SPENDING ARRANGEMENTS UNDER CAFETERIA PLANS.
(a) IN GENERAL—Section 125 of the Internal Revenue Code of 1986 is amended—
(1) by redesignating subsections (i) and (j) as subsections (j) and (k), respectively, and
(2) by inserting after subsection (h) the following new sub-section:
“(i) LIMITATION ON HEALTH FLEXIBLE SPENDING ARRANGEMENTS.—Replaced by section 10902(a);
“(1) IN GENERAL.—For purposes of this section, if a benefit is provided under a cafeteria plan through employer contributions to a health flexible spending arrangement, such benefit shall not be treated as a qualified benefit unless the cafeteria plan provides that an employee may not elect for any taxable year to have salary reduction contributions in excess of $2,500 made to such arrangement.
“(2) ADJUSTMENT FOR INFLATION.—As revised by section 1403(b) of HCERA; In the case of any taxable year beginning after December 31, 2013, the dollar amount in paragraph (1) shall be increased by an amount equal to—
“(A) such amount, multiplied by
“(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which such taxable year begins by substituting ‘calendar year 2012’ for ‘calendar year 1992’ in subparagraph (B) thereof. If any increase determined under this paragraph is not a multiple of $50, such increase shall be rounded to the next lowest multiple of $50.”.
(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2012.