

## Big Increase in Dependent Care Flexible Spending Account Limit for 2021

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March 17, 2021

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The American Rescue Plan Act of 2021 (**ARPA**), which was enacted on March 11, 2021, temporarily increases the maximum amount that an employee is permitted to contribute to a dependent care flexible spending account (**FSA**) from \$5,000 to \$10,500 (or from \$2,500 to \$5,250 for a married person filing a separate return) for the taxable year beginning in 2021. The increased dependent care FSA limit is an optional change that a plan sponsor may choose to incorporate into its dependent care program included under its cafeteria plan. This change, combined with the change under the Consolidated Appropriations Act, 2021 (**CAA**), which authorizes a cafeteria plan to permit participants to make prospective changes to their dependent care FSA contributions (see our prior blog post regarding the CAA [here](#)), allows participants to increase contributions to their dependent care FSAs in 2021. In order to implement the new dependent care FSA limit, the plan sponsor must amend its cafeteria plan, generally by the end of the 2021 plan year. In addition, the cafeteria plan must be administered in a manner consistent with such amendment during the period beginning on its effective date and ending on the date the amendment is actually adopted. Therefore, the plan sponsor may want to amend its plan as soon as practicable to ensure consistency between the terms of the plan and its operation.

The ARPA is available [here](#).