

IRS Issues Guidance on the PPACA 2013 FSA Limit

June 7, 2012

The Internal Revenue Service recently released Notice 2012-40 which provides guidance on the effective date of the \$2,500 limit on salary reductions to health flexible spending arrangements ("FSA") under Section 125(i) of the Internal Revenue Code ("Section 125(i)"). Section 125(i) was added by the Patient Protection and Affordable Care Act ("PPACA") and provides that a health FSA is not 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. Notice 2012-40 clarifies that the Section 125(i) \$2,500 limit does not apply for plan years that begin before 2013. Accordingly, the \$2,500 limit on health FSA salary reduction contributions applies on a plan year basis and is effective for plan years beginning after December 31, 2012. Notice 2012-40 also provides that for plans providing a grace period, unused salary reduction contributions to the health FSA for plan years beginning in 2012 or later that are carried over into the grace period for that plan year will not count against the \$2,500 limit for the subsequent plan year. Notice 2012-40 can be found [here](#).