

2023 Health FSA Contribution Cap Rises to \$3,050

Incorporate benefits adjustments into open enrollment platforms and materials

By Stephen Miller, CEBS
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This article was updated.

Employees can put an extra \$200 into their health care flexible spending accounts (health FSAs) next year, the IRS announced on Oct. 18, as the annual contribution limit rises to **\$3,050**, up from \$2,850 in 2022. The increase is double the \$100 rise from 2021 to 2022 and reflects recent inflation.

If the employer's plan permits the carryover of unused health FSA amounts, the maximum carryover amount rises to **\$610**, up from \$570.

Tax-exclusion limits for employer-sponsored commuting benefits and adoption assistance programs are also rising for 2023 due to cost-of-living adjustments (COLAs), the IRS announced in Revenue Procedure 2022-38 (<https://www.irs.gov/pub/irs-drop/rp-22-38.pdf>) and summarized in a related press release (<https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2023>).

Unlike in recent years, when FSA limits for the forthcoming year were released in November, this year's announcement should give more employers time to incorporate the adjustments into their open enrollment platforms and materials.

"These announcements are timely, if not late (<https://www.employeebenefitsblog.com/2022/10/irs-announces-cost-of-living-adjustments-for-health-and-welfare-plans/>), given that many employers are already in the middle of open enrollment for 2023," blogged attorneys at global law firm McDermott Will & Emory. "Plan sponsors should act quickly to update payroll and plan administration, along with open enrollment communications, to account for the changes."

The IRS separately announced 2023 contribution limit COLAs for 401(k)s (www.shrm.org/ResourcesAndTools/hr-topics/benefits/Pages/2023-irs-401k-contribution-limits.aspx) and similar defined contribution plans, and annual limit adjustments for defined benefit pension plans.

Health FSAs

The chart below shows the adjustment in health FSA contribution limits for 2023. Employers may set lower limits for their workers.

Health Flexible Spending Accounts (Includes limited-purpose FSAs)	2023	2022	Change
Maximum salary deferral contribution	\$3,050	\$2,850	+\$200
Maximum carryover amount	\$610	570	+\$40

Source: IRS Revenue Procedure 2022-38.

The limit also applies to limited-purpose FSAs that are restricted to dental and vision care services, which can be used in tandem with health savings accounts (HSAs).

The IRS released 2023 HSA contribution limits (www.shrm.org/resourcesandtools/hr-topics/benefits/pages/2023-irs-contribution-limits-for-hsas-and-high-deductibel-health-plans.aspx) in April, giving employers and HSA administrators plenty of time to adjust their systems for the new year. The individual HSA contribution limit will be \$3,850 (up from \$3,650) and the family contribution limit will be \$7,750 (up from \$7,300).

"If your plan does not make an automatic change to increase the health FSA adjustment for future plan years, your plan document will need to be amended (<https://graydon.law/cafeteria-plan-cola-may-require-employer-action/>) to permit your employees to put the additional \$200 in their health FSAs for 2023," wrote Alex Mattingly, an attorney at law firm Graydon in Cincinnati. "Even if your plan is automatically increased for cost-of living adjustments, you will need to amend any references to this limit in other documents, such as your SPDs [summary plan descriptions] or election forms," he noted.

CARRYOVER AMOUNTS OR GRACE PERIOD

Health or dependent care FSA funds that are not spent by the employee within the plan year can include a two-and-a-half-month grace period (www.shrm.org/ResourcesAndTools/hr-topics/benefits/pages/fsa-grace-period-reminder.aspx) to spend down remaining FSA funds, if employees are enrolled in FSAs that have adopted the grace period option.

Health FSAs have an additional option of allowing participants to carry over unused funds at the end of the plan year, up to an inflation-adjusted limit set by the IRS, and still contribute up to the maximum in the next plan year. Health FSA plans can elect either the carryover or grace period option but not both.

EMPLOYER HEALTH FSA CONTRIBUTIONS

If employers provide health care FSA contributions, this amount is in addition to the amount that employees can elect. Employees can elect up to the IRS limit and still receive the employer contribution.

As explained by Core Documents, a provider of IRS-compliant plan documents, the IRS puts a limit on an employer's contribution (<https://www.coredocuments.com/health-fsa-contribution-best-choice-for-most-employers/>) to a health FSA based on how much the employee contributes:

- An employer may match up to \$500 whether or not the employee contributes to a health FSA.
- Starting at \$501, employers may only make a dollar-for-dollar match to the employee's contribution.

According to Brian Gilmore, lead benefits counsel at Newfront, an insurance and financial services firm in San Francisco, "employer contributions ... generally cannot exceed \$500 per plan year (<https://www.newfront.com/blog/2023-health-fsa-limit-increased-to-3050>) for the health FSA to maintain excepted benefit status," and nonexcepted health FSAs cannot comply with the Affordable Care Act's market reform mandates.

Therefore, he added, "in most cases the maximum health FSA amount available for plan years beginning on or after Jan. 1, 2023, will be limited to \$3,050 (max employee salary contribution) + \$500 (max employer contribution, if offered) = \$3,550 (combined)."

Dependent Care FSAs

A dependent care FSA (<https://www.business.com/articles/dependent-care-fsa/>) (DC-FSA) is a pretax benefit account used to pay for dependent care services such as day care, preschool, summer camps and non-employer-sponsored before or after school programs. Funds may be used for expenses relating to children under the age of 13 or incapable of self-care who live with the account holder more than half the year.

These plans may also be referred to as dependent care assistance plans (DCAPs) or dependent care reimbursement accounts (DCRAs).

In general, an FSA carryover only applies to health FSAs, although COVID-19 legislation permitted a carryover of unused balances for DC-FSAs into the next plan year for plan years 2020 and 2021 only.

The dependent care FSA maximum annual contribution limit is not indexed and did not change for 2022 or for 2023. It remains \$5,000 per household for single taxpayers and married couples filing jointly, or \$2,500 for married people filing separately. Married couples have a combined \$5,000 limit, even if each has access to a separate DC-FSA through his or her employer.

Dependent Care FSAs (DC-FSAs) also called Dependent Care Assistance Plans (DCAPs)	2023	2022	Change
Maximum salary deferral (single taxpayers and married couples filing jointly)	\$5,000	\$5,000	no change (not indexed)
Maximum salary deferral (married couples filing separately)	\$2,500	\$2,500	no change (not indexed)

Source: IRS.

Maximum contributions to a DC-FSA may not exceed these earned income limits:

- For single account holders, the earned income limit is their salary excluding contributions to their DC-FSA.
- For married account holders, the earned income limit is the lesser of their salary excluding contributions to their DC-FSA or their spouse's salary.

Employers can also choose to contribute to employees' DC-FSAs. However, unlike with a health FSA, the combined employer and employee contributions to a DC-FSA cannot exceed the IRS limits noted above.

A separate tax code child and dependent care tax credit (<https://www.irs.gov/newsroom/understanding-the-child-and-dependent-care-tax-credit>) cannot be claimed for expenses paid through a DC-FSA, as "double dipping" is not permitted.

Elder care may be eligible for reimbursement with a DC-FSA if the adult lives with the FSA holder at least 8 hours of the day and is claimed as a dependent on the FSA holder's federal tax return.

[SHRM member-only HR Q&A: What is a dependent care assistance plan (DCAP)? (www.shrm.org/resourcesandtools/tools-and-samples/hr-qa/pages/dependentcareassistanceplan.aspx)]

Commuting Benefit Amounts

Employer-funded parking and mass-transit subsidies are tax-exempt for employees. Using pretax income, employees can also pay their own mass-transit or workplace parking costs through an employer-sponsored salary deferral program.

These expenses include the value of mass-transit passes and van pooling services, and parking on or near the business worksite or a location from which employees commute to work by driving and then using mass transit.

Qualified Transportation Benefit Exclusion (monthly limits)	2023	2022	Change
Transit passes and van pool services	\$300	\$280	+\$20 per month
Qualified parking	\$300	\$280	+\$20 per month

Source: IRS Revenue Procedure 2022-38.

The ability to pay transit expenses with pretax dollars, within the annual limit, "should be welcomed by employees with high commuter costs, such as those who rely on urban mass transit systems," said Danielle Capilla, director of employee benefits compliance at Alera Group, a network of insurance and financial services firms.

Adoption Assistance

For 2023, the maximum amount of an employer subsidy for qualified child-adoption expenses that can be excluded from an employee's gross income is **\$15,950**, up from \$14,890 for 2022.

Excludable reimbursements must be "necessary and reasonable expenses (<https://www.irs.gov/taxtopics/tc607>)" related to adopting a child, according to the IRS. Qualified adoption expenses, however, don't include expenses that employees pay to adopt their spouse's child.

The amount excludable from an employee's annual earnings begins to phase out for employees with modified adjusted gross income higher than a set limit, adjusted annually by the IRS, and is completely phased out for those with modified adjusted gross income above the top of the phase-out range.

Adoption Benefits (Annual limits)	2023	2022	Change
Excludable amount	\$15,950	\$14,890	+\$1,060
Phase-out income thresholds:			
Phase-out begins	\$239,230	\$223,410	+\$15,820
Phase-out complete	\$279,230	\$263,410	+\$15,820

Source: IRS Revenue Procedure 2022-38.

"Adoption benefits typically include some combination of financial assistance, information and referral services, and paid or unpaid leave," according to the Society for Human Resource Management's members-only toolkit Managing Adoption Assistance Benefits (www.shrm.org/ResourcesAndTools/tools-and-samples/toolkits/Pages/adoptionassistancebenefits.aspx). "Adopting a child from foster care may cost about \$2,500, domestic private adoptions can cost up to \$40,000, and international adoptions can cost up to \$50,000. Costs may include public or private agency fees, court costs, legal fees and counseling fees."

Employer programs can provide funds to reimburse adoption costs that exceed the annual limit, although employees will owe income taxes on any extra assistance they received.

Adoption Tax Credit vs. Employer Assistance

The tax code provides a separate income-tax credit (<https://www.irs.gov/forms-pubs/about-form-8839>) for qualified adoption expenses. For 2023, the maximum credit is \$15,950 per child—the same as the maximum nontaxable reimbursement by an employer's qualified adoption-assistance program. Tax credits larger than an employees' tax liability can be carried forward for up to five years.

Employees may take advantage of both the tax credit and the tax exclusion for employer reimbursements—but not for the same expenses.

Because employer-provided adoption aid is subject to FICA payroll taxes, some financial planners advise that high-income employees consider using the tax credit first, although employees who need upfront funds to pay expenses may benefit more from an employer's program.

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Qualified Small Employer HRAs

For taxable years beginning in 2023, to qualify as a qualified small employer health reimbursement arrangement (QSEHRA) (www.shrm.org/ResourcesAndTools/hr-topics/benefits/pages/qsehras-help-small-employers-solve-the-health-coverage-puzzle.aspx), the arrangement must provide that the total amount of payments and reimbursements by employers for any year cannot exceed **\$5,850** for individual coverage or **\$11,800** for family coverage, Revenue Procedure 2022-38 states.

QSEHRA Coverage (Annual limits)	2023	2022	Change
Individual	\$5,850	\$5,450	+\$400
Family	\$11,800	\$11,050	+\$750

Source: IRS Revenue Procedure 2022-38.

QSEHRAs first became available in 2017 after the enactment of the 21st Century Cures Act. They allow small employers—those with fewer than 50 full-time or equivalent employees—to give their workers money tax-free to purchase individual health policies, which is not allowed with a traditional HRA or an HSA. The coverage can be purchased on an Affordable Care Act marketplace exchange or through an insurance broker.

QSEHRA funds can be used for out-of-pocket medical costs and to pay premiums on Affordable Care Act marketplace plans.

For employees who become eligible for the QSEHRA midyear, the limits are prorated to reflect the total amount of time the employee is eligible.

Related SHRM Articles:

For 2023, 401(k) Contribution Limit Rises to \$22,500 with \$7,500 'Catch-Up' (www.shrm.org/ResourcesAndTools/hr-topics/benefits/Pages/2023-irs-401k-contribution-limits.aspx), *SHRM Online*, October 2022

2023 Social Security Wage Cap Jumps to \$160,200 for Payroll Taxes (www.shrm.org/ResourcesAndTools/hr-topics/compensation/Pages/2023-wage-cap-rises-for-social-security-payroll-taxes.aspx), *SHRM Online*, October 2022

IRS Sets 2023 Health Plan Premium Affordability Threshold at 9.12% of Pay (www.shrm.org/ResourcesAndTools/hr-topics/benefits/Pages/IRS-sets-2023-health-plan-premium-affordability-threshold.aspx), *SHRM Online*, August 2022

IRS Announces Spike in 2023 Limits for HSAs and High-Deductible Health Plans (www.shrm.org/resourcesandtools/hr-topics/benefits/pages/2023-irs-contribution-limits-for-hsas-and-high-deductible-health-plans.aspx), *SHRM Online*, April 2022

View *2023 Benefit Plan Limits & Thresholds Chart* (www.shrm.org/ResourcesAndTools/hr-topics/benefits/Pages/2023-benefits-plan-limits-and-thresholds-chart.aspx).

Visit *SHRM's resource page on Open Enrollment* (www.shrm.org/ResourcesAndTools/Pages/open-enrollment.aspx).

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