

## **IRS Provides Increased Flexibility for Taxpayers Enrolled in Section 125 Cafeteria Plans**

The Internal Revenue Service ("IRS") has recently released guidance allowing temporary changes to Section 125 cafeteria plans. The changes extend the claims period for both health flexible spending arrangements ("FSAs") and dependent care assistance programs and allow taxpayers to make certain previously impermissible mid-year changes.

The guidance issued addresses unanticipated changes in expenses because of the 2019 Novel Coronavirus ("COVID-19") pandemic and states that previously provided temporary relief for high deductible health plans may be applied retroactively to January 1, 2020. The IRS also increased the \$500 permitted carryover amount for health FSAs to \$550 due to inflation.

Specifically, [Notice 2020-29](#) provides greater flexibility for taxpayers by:

- Extending claims periods for taxpayers to apply unused amounts remaining in a health FSA or dependent care assistance program for expenses incurred for those same qualified benefits through December 31, 2020.
- Expanding the ability of taxpayers to make mid-year elections for health coverage, health FSAs, and dependent care assistance programs, allowing them to respond to changes in needs as a result of the COVID-19 pandemic.
- Applying earlier relief for high deductible health plans to cover expenses related to COVID-19, and a temporary exemption for telehealth services retroactively to January 1, 2020.

In addition, [Notice 2020-33](#) responds to Executive Order 13877, which directs the Secretary of the Treasury to "issue guidance to increase the amount of funds that can carry over without penalty at the end of the year for flexible spending arrangements." Notice 2020-33 increases the limit for unused health FSA carryover amounts from \$500 to \$550.

### **Contact**

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