

What is a Medical Flexible Spending Account (FSA)?

A Medical FSA is an account that allows tax-free dollars to be used for payment of eligible medical services not covered or reimbursed by any other source. Medical FSAs are governed by Sections 125, 105, 106 and 213 of the Internal Revenue Code.

What medical services are eligible under my Medical FSA?

In general, eligible services are those that are used primarily to diagnose, prevent, treat or mitigate a physical or mental defect or illness. Services provided for cosmetic reasons and those that are merely beneficial to one's general health are not considered expenses for medical care.

Eligibility of expenses is governed by the IRS and those guidelines are used by Benefit Resource. The Benefit Resource Medical FSA Expense Worksheet and Claim Form suggest eligible services from an FSA as well as some non-eligible services.

Note that funds used for eligible expenses from your Medical FSA:

- Cannot be taken as a deduction on your federal income tax return in any tax year (no double-dipping);
- Cannot be covered, paid, reimbursed, or reimbursable from any other source;
- Cannot include insurance premiums;
- Cannot exceed the amount of your Medical FSA election.

My spouse is also offered a Medical FSA at work. Can each of us elect the maximum amount allowed under our respective plans?

Yes. The IRS does not limit the maximum amount allowed for Medical FSA elections. However, you *cannot* receive payment for the same services from both plans (no double-dipping).

Can the funds in my Medical FSA be used for my spouse and dependents' eligible expenses?

Yes. The funds in your Medical FSA can be used for eligible medical services provided for you, your spouse and/or any of your dependents that you claim on your income tax return.

Are co-payments and deductibles eligible expenses under my Medical FSA?

Yes, co-payments and deductibles are eligible expenses.

Are my medical insurance premiums eligible expenses under my Medical FSA?

No, insurance premiums of any kind are not eligible expenses per IRS regulations.

Is a warranty for contact lenses/eyeglasses an eligible expense under a Medical FSA?

No. A warranty is like an insurance policy and is not associated with a specific medical service that has already been provided.

Can I use my Medical FSA for transportation expenses related to eligible medical care?

Yes, transportation expenses (e.g. tolls, parking fees, mileage) required to obtain eligible medical care are eligible for reimbursement.

- For tolls and parking fees, your claim must be accompanied by a receipt showing the provider, the date of service and the amount of the expense.
- Actual mileage incurred with an automobile must be indicated as follows on your claim form: the number of miles traveled times the allowable rate yielding the total amount being claimed:

for services provided from 1/1 - 6/30/08, the rate is 19¢ per mile;
for services provided *on or after* 7/1/08, the rate is 27¢ per mile.

How does reimbursement for orthodontia expenses work?

IRS regulations allow reimbursement of eligible orthodontia expenses based on date of payment, date of service or payment date due date on statements/coupons. (Note that reimbursement of *other* dental procedures is based on dates of service.)

What will I need to report on my tax return about my Medical FSA contributions?

Information about a Medical FSA does not need to be reported on your tax return. Your W-2 form will not include any tax-free amounts that you contribute to your Medical FSA.

If I use funds from my Medical FSA for medical expenses, can I claim a deduction on my income tax?

No. Because eligible expenses are paid with tax-free dollars from your Medical FSA, you cannot claim the same expenses on your income tax return (no double-dipping).

Is it more advantageous to use a Medical FSA instead of claiming those expenses as a deduction on my income tax?

The Medical FSA is more advantageous for most people because of the following reasons:

- On your tax return, only medical expenses that exceed 7.5% of your adjusted gross income can be deducted. With a Medical FSA, the first dollar you spend on eligible medical services will be tax-free.
- On your tax return, eligible medical expenses are exempt only from income taxes. The funds in your Medical FSA are exempt not only from income taxes but also from FICA tax.

Note: If your eligible expenses exceed 7.5% of your adjusted gross income by a significant amount, you should consult a tax professional to determine which method is better for you.