March 31, 2014

Interaction Between HSA and Health FSA

The IRS recently issued CCA 201413005, which is an IRS Chief Counsel Advice memorandum. It is informal guidance only.

The CCA addresses seven separate issues with respect to HSAs and health FSAs. One of the issues provides that an individual who participates in a general purpose health FSA and voluntarily elects to participate in an HSA-compatible health FSA for the following year, can have unused amounts from the general purpose health FSA carried over to the HSA-compatible health FSA and is eligible to contribute to an HSA for the entire following year. In a related issue, the employer may also provide that anyone who elects an HDHP for the following year, will automatically be treated as electing an HSA-compatible health FSA so that such account can receive any rollovers from the general purpose FSA. Both of these statements are helpful to employers because they allow participants to easily transition from a non-HDHP medical option to an HDHP medical option without the typical forfeiture of HSA contribution rights, or the forfeiture of health FSA funds. Speaking of forfeitures, the CCA guidance also allows individuals to voluntarily decline a carryover of unused health FSA amounts, thereby also allowing the individual to contribute to an HSA starting January 1.

Link to Memo