MARCH 15, 2021

DCFSA Limit Increases for 2021

The American Rescue Plan Act of 2021 ("ARPA") increases the dependent care flexible spending arrangement ("DCFSA") annual limit from $5,000 to $10,500. The increase only applies to the 2021 calendar year.Employers are not required to offer the higher limit under their DCFSA plans.
If an employer desires to increase the limit under its DCFSA plan, the employer must do the following -

- Inform employees of the increased limit and pursuant to guidance issued earlier this year by the IRS allow employees a one-time opportunity to change their pre-tax election for the remainder of 2021.
- Amend the employer's cafeteria plan by December 31, 2021 to allow for the one-time mid-year election change and the increased DCFSA limit.
- If applicable, amend the service agreement with the DCFSA administrator for the mid-year change in services.