

## e-Alert

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# FSA and Transportation Benefit Limits to Increase in 2023

## Background

The inflation-adjusted limit for 2023 on employee salary reduction contributions to health flexible spending accounts (FSAs), the cost-of-living adjustments for employee qualified transportation fringe benefits for the 2023 taxable year, along with annually adjusted numbers for 2023 for other tax provisions have been released in the [Revenue Procedure 2022-38](#) by the IRS.

The Affordable Care Act (ACA) imposes a dollar limit on employees' salary reduction contributions to health FSAs. This dollar limit is indexed for cost-of-living adjustments and often increases from year-to-year. For plan years beginning in 2023, the ACA's adjusted dollar limit on employees' salary reduction contributions to health FSAs increases to \$3,050. This is a \$200 increase from the 2022 health FSA limit of \$2,850. Rev. Proc. 22-38 also increases the maximum carryover limit for a health FSA to \$610 for 2023 (from \$570 for 2022). The combined monthly limit for transportation in a commuter highway vehicle and a transit pass will increase to \$300 in 2023, which is up from the 2022 limit of \$280. The monthly limit in 2022 for qualified parking will also increase to \$300 from \$280.

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## Summary

### Employer Limits

As long as an employer's limit does not exceed the ACA's maximum limit in effect for the plan year, an employer may continue to impose its own dollar limit on employees' salary reduction contributions to health FSAs. For example, an employer may decide to limit employee health FSA contributions for the 2023 plan year to \$2,500.

### Per Employee Limit

The health FSA limit applies on an employee-by-employee basis. Each employee may only elect up to \$3,050 in salary reductions in 2023, regardless of whether he or she has family members who benefit from the funds in that FSA. However, each family member who is eligible to participate in his or her own health FSA will have a separate limit. For example, a husband and wife who have their own health FSAs can both make salary reductions of up to \$3,050 per year, subject to any lower employer limits.

### Qualifies Transportation Fringe Benefits

Internal Revenue Code Section 132(f) allows employers to offer qualified transportation benefit programs to their employees on a tax-free basis. These programs allow employees to have money withheld from their taxable compensation to pay or reimburse work-related expenses for qualified parking, transit passes, and transportation in certain commuter highway vehicles (e.g., qualifying van pools). Employers may also provide these benefits tax-free to employees.

Section 132(f) establishes a maximum monthly amount of qualified transportation benefits employees may exclude from their income, subject to cost-of-living adjustments announced by the IRS before the beginning of each calendar year. Both employee pre-tax salary deferrals and employer-paid benefits, if any, count toward the maximum amount.

### No Tax Deduction for Employers

Beginning in 2018, the [Tax Cuts and Jobs Act of 2017](#) eliminated the employer tax deduction for qualified transportation benefits. The employer deduction is disallowed regardless of whether the benefits are paid directly by the employer, through a bona fide reimbursement arrangement, or through a compensation reduction agreement.

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## Employer Next Steps

- If you are a HRK/Hilb Brokerage client and would like our assistance with updating your policy, please [email us](#)

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