



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

OFFICE OF THE CHIEF COUNSEL

June 1, 2018

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UIL: 125.00-00

Dear _____ :

This is in response to your inquiry of October 30, 2017 regarding the use or lose rules applicable to health Flexible Spending Arrangements (health FSAs). Your letter was referred to this office for response because the IRS implements the laws relating to health FSAs. You asked that the rules be changed to allow savings to be accumulated in these accounts over several years. Health FSAs can provide for the carryover of unused amounts on a limited basis. At its option, an employer can include a provision in a health FSA that allows amounts unused at the end of the plan year to be carried over to the next year up to \$500.

In addition, the Internal Revenue Code currently provides for health savings accounts (HSAs) and Health Reimbursement Arrangements (HRAs) that permit funds to be accumulated to pay for certain medical expenses. HSAs allow eligible individuals to set aside amounts in an account, which can then be used tax-free for certain medical expenses. Unused amounts can be accumulated in the account and used in any later year. To be eligible to contribute to an HSA, an individual must be covered by a high deductible health plan, and satisfy other requirements.

Also, an employer can establish an HRA to pay for certain medical expenses of employees not covered by the employer's health plan. Unused amounts in an HRA can be accumulated and used for medical expenses in later years. HRAs can only be funded by the employer.

More information about health FSAs, HSAs and HRAs can be found in IRS Publication 969 Health Savings Accounts and Other Tax-Favored Health Plans, located on irs.gov at this link <https://www.irs.gov/pub/irs-pdf/p969.pdf>.

I hope this information is helpful. If you have any questions, please call me at
or at .

Sincerely yours,

Denise Trujillo, Chief
Health and Welfare Branch
Office of Associate Chief Counsel
(Tax Exempt and Government Entities)