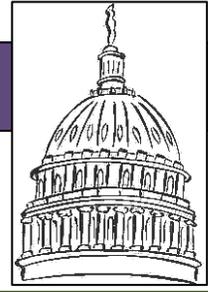




Health Care Reform Update



IMPORTANT NOTICE REGARDING HEALTHCARE REFORM Update #102 November 2019

IRS Releases 2020 Cost-of-Living Adjustments for Health FSAs, QSEHRAs and More

The IRS has released the 2020 cost-of-living adjustments (COLAs) for a wide variety of tax-related limits, including limits relating to health FSAs, qualified small employer health reimbursement arrangements (QSEHRAs), DCAPs, the small business health care tax credit, the premium tax credit, qualified transportation fringe benefits, adoption assistance, and Archer MSAs.

- **Health FSAs:** For 2020, the dollar limit on employee salary reduction contributions to health FSAs will be \$2,750 (up from \$2,700).
- **Qualified Small Employer Health Reimbursement Arrangements (QSEHRA):** For 2020, the maximum amount of payments and reimbursements under a QSEHRA will be \$5,250 for self-only coverage and \$10,600 for family coverage (up from \$5,150 and \$10,450, respectively).
- **Dependent Care Assistance Plan (DCAP):** While the \$5,000/\$2,500 DCAP limit has not changed there are adjustments to some of the general tax limits that are relevant to the federal income tax savings under a DCAP. These include the 2020 tax rate tables, earned income credit amounts, and standard deduction amounts. The child tax credit limits are also relevant when calculating the federal income tax savings from claiming the dependent care tax credit (DCTC) versus participating in a DCAP.
- **Small Business Health Care Tax Credit:** For 2020, the average annual wage level at which the tax credit begins to phase out for eligible small employers will be \$27,600 (up from \$27,100). The maximum average annual wages to qualify for the credit as an “eligible small employer” for 2020 will be twice this amount, i.e., \$55,200.
- **Premium Tax Credit:** For taxable years beginning in 2020, the following limitations on the tax for excess advance credit payments will apply: For unmarried individuals (other than surviving spouses and heads of household), \$325 for household income less than 200% of the federal poverty line (FPL); \$800 for household income at least 200% but less than 300% of FPL; and \$1,350 for household income at least 300% but less than 400% of FPL. For all other taxpayers, \$650 for household income less than 200% of FPL; \$1,600 for household income at least 200% but less than 300% of FPL; and \$2,700 for household income at least 300% but less than 400% of FPL. This tax is imposed if a taxpayer’s advance premium tax credit payments for health insurance purchased through an Exchange for a year exceed the allowed credit.
- **Qualified Transportation Fringe Benefits:** For 2020, the monthly limit on the amount that may be excluded from an employee’s income for qualified parking benefits will be \$270 (up from



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\$265). The combined monthly limit for transit passes and vanpooling expenses for 2020 will be \$270 (up from \$265).

- **Adoption Assistance Exclusion and Adoption Credit:** The maximum amount that may be excluded from an employee's gross income under an employer-provided adoption assistance program for the adoption of a child will be \$14,300 for 2020 (up from \$14,080). In addition, the maximum adoption credit allowed to an individual for the adoption of a child will be \$14,300 for 2020 (up from \$14,080). Both the exclusion and the credit will begin to be phased out for individuals with modified adjusted gross incomes greater than \$214,520 and will be entirely phased out for individuals with modified adjusted gross incomes of \$254,520 or more.
- **Archer MSAs:** For Archer MSA-compatible high-deductible health coverage, the annual deductible for self-only coverage must not be less than \$2,350 (no change from 2019) or more than \$3,550 (up from \$3,500), with an out-of-pocket maximum of \$4,750 (up from \$4,650). For family coverage, the annual deductible must not be less than \$4,750 (up from \$4,650) or more than \$7,100 (up from \$7,000), with an out-of-pocket maximum of \$8,650 (up from \$8,550).

Other 2020 limits such as long-term care premiums that will be considered medical care under Code § 213(d) and penalty amounts applicable to information returns and individual statements (including Forms 1094 and 1095) have also been adjusted.

Bernie Lowe & Associates, Inc. is not providing any legal advice with regard to compliance with the requirements of the Affordable Care Act ("ACA"). Bernie Lowe & Associates, Inc. makes no representation as to the impact of plan changes on a plan's grandfathered status or interpretation or implementation of any other provisions of ACA. Bernie Lowe & Associates, Inc. will not determine whether coverage is discriminatory or otherwise in violation of Internal Revenue Code Section 105(h).