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Annual Contribution Limits – Health FSAs, HSAs, & DCAPs

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Health flexible spending arrangements (FSAs) and health savings accounts (HSAs) provide tax-favored reimbursement of qualifying medical expenses, and dependent care assistance plans (DCAPs) provide tax-favored reimbursement of qualifying daycare expenses. The IRS limits the amount that individuals may benefit from these arrangements on a tax-favored basis, and each of these arrangements is subject to different rules with respect to annual contribution and reimbursement limits, which is a common source of confusion. Below are the details of how the annual contribution and reimbursement limits apply for each of these arrangements.

Health FSAs – Plan Year Contribution Limits

The health FSA salary reduction limit (e.g., \$3,300 for 2025) applies on a plan year basis, not necessarily on a calendar year basis. For example, a health FSA with an April – March plan year could allow employees to elect to contribute up to \$3,300 for the April 2025 – March 2026 plan year. The limit generally applies only to employee contributions, so employers could contribute in addition to the 2025 \$3,300 contribution limit (subject to excepted benefit rules).

The limit applies per employee, rather than on a household basis, so if both spouses are employed and eligible for health FSA coverage, each spouse could contribute up to \$3,300 for 2025. In addition, the limit applies on a per employer basis, so an employee who works for two separate employers that are unrelated (i.e., not part of a controlled group or affiliated service group due to common ownership or shared services), whether simultaneously or at different times during the same plan year, may elect up to \$3,300 in 2025 under each employer's health FSA.

For a short plan year, the employer is required to pro rate the annual contribution limit accordingly (e.g., $\frac{1}{2}$ of the annual limit for a 6-month short plan year). However, when an employee joins a health FSA mid-plan year, they may elect to make up to the full annual contribution limit (\$3,300 for 2025). This is true even if the individual previously contributed to a health FSA under another unrelated employer's plan during the same plan year.

Example

- Denise is hired by Employer A on May 6, 2025. Employer A offers a health FSA that runs on a calendar year. Denise elects to contribute \$3,300 to the health FSA starting June 1, 2025. Denise is permitted to make the full annual election even though she is joining mid-plan year. She will be able to make contributions of \$471.42/month to her health FSA for 7 months of coverage, and due to the "uniform contribution rule," Denise's full annual contribution election amount is available for reimbursement of claims beginning on June 1.

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HSAs – Calendar Year Contribution Limits

Annual HSA contribution maximums (e.g., \$4,300 for single and \$8,550 for family in 2025) apply on a calendar year basis. The contribution limits apply to all contributions made to an individual's HSA, so the combination of employee AND any employer contributions cannot exceed the annual contribution limit.

While the HSA contribution limit will always be determined on a calendar year basis because it is tied to the individual's tax year, it is common for employers to align the HDHP and HSA elections when the HDHP has a non-calendar year plan (e.g., divide up an annual election over the pay periods during the HDHP plan year). The only issue is that this may not allow employees to take advantage of making the maximum level of contribution permitted for the year. Therefore, employers with non-calendar years might take the following approach:

- Limit employee HSA contribution elections to the annual contribution limit for the year in which the plan year begins. For example, when making elections for family HDHP coverage in 2025, employees would be permitted to make an election for up to \$8,550 (the 2025 family annual limit), which would then be divided evenly over the plan year. Since the contribution limit always increases from one year to the next, the employee would not be in any danger of over-contributing.
- The employer could then allow employees to adjust HSA contribution elections mid-year to account for the increased annual limit. In January, when the annual contribution limits increase, the employer could send out a notification reminding employees that the contribution limit has increased and that HSA contributions could be adjusted. HSA contributions can be adjusted monthly, so employees could choose to adjust things in accordance with a higher contribution limit if desired at any point during the plan year.

HSA-eligible individuals may contribute up to 1/12 of the annual contribution limit for each month that they are enrolled in qualifying HDHP coverage, do not have any disqualifying coverage (e.g., non-HDHP coverage, general-purpose health FSA, or Medicare), and cannot be claimed as another's tax dependent. Under the monthly contribution rule, if an individual was HSA-eligible for all 12 months of the year, the individual may contribute up to the annual contribution limit. However, if the individual is HSA-eligible for only a portion of the calendar year, the annual contribution limit must be pro-rated accordingly. For example, if an individual is HSA-eligible for 5 months of the calendar year, the individual may contribute 5/12 of the annual contribution limit. The monthly contribution rule applies unless an individual wishes to take advantage of what is known as the "full contribution," or "last month," rule. This rule permits somebody who is HSA-eligible as of December 1 of a given calendar year to make a full year's contribution to their HSA for their applicable tier of HDHP coverage, even if they were not HSA eligible for the entire year. This is true so long as the individual commits to remaining HSA-eligible for all of December and the entire following calendar year (this is known as the 13-month "testing period").

Example 1 (Monthly Contribution Rule)

- Jose is hired by Employer B on June 13, 2025. He enrolls in single coverage under a qualifying HDHP effective August 1. Jose remains enrolled in the HDHP for the remainder of the calendar year. He may contribute 1/12 of \$4,300 (for 2025) for each of the 5 months of coverage – i.e., a total of \$1,791.66. Employee and/or employer contributions of up to \$1,791.66 in aggregate can be made up until April 15, 2026 (the tax return deadline for 2025).

Example 2 (Full Contribution Rule)

- In the scenario above, instead of making pro-rated monthly contributions to his HSA for August – December, since Jose was HSA-eligible on December 1, 2025, Jose could make a full contribution of \$4,300 for the 2025 calendar year as long as he remains HSA-eligible through the end of 2026.

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Note that under either Example 1 or 2, if Jose had been covered under qualifying HDHP coverage and contributed to an HSA during 2025 prior to joining Employer B's plan, he would have to adjust his contributions accordingly since the annual HSA contribution limit applies to the individual regardless of how many plans they are covered under.

DCAPs – Calendar Year Reimbursement Limits

DCAP, or dependent care FSA, reimbursement limits (\$5,000/year) apply on a calendar year basis, not necessarily the employer's plan year. In addition, the limit applies on a family basis. Whether DCAP amounts are contributed by the employee or the employer, families are limited to \$5,000 of tax-favored reimbursement each calendar year. If both spouses have the opportunity to participate in DCAPs, or if an employee participates in DCAPs under separate employers within the same calendar year, the spouses together cannot receive more than \$5,000 in tax-favored reimbursement for the calendar year.

Because the reimbursement limit of \$5,000 is always calculated on a calendar year basis, it may be easier (but not required) for employers to offer the DCAP on a calendar basis. In addition, to help employees ensure that the \$5,000 reimbursement is not exceeded, some employers choose to pro-rate the annual contribution limit for employees who join mid-plan year.

Example 1

- Andrea switches jobs mid-year. Under her previous employer, she participated in a DCAP and contributed a total of \$2,400 to the plan during the first part of 2025. She joins her new employer's DCAP and may contribute an additional \$2,600 to the DCAP for the remainder of the 2025 calendar year.

Example 2

- Same facts as Example 1, except that Andrea did not contribute to a DCAP with her previous employer. Andrea may elect the full \$5,000 to contribute to her DCAP with her new employer for the remainder of the 2025 calendar year if the employer doesn't limit contributions on a pro rata basis tied to the number of months remaining in the plan year.

Example 3

- Same facts as Example 2, except that Andrea's spouse (with whom she files jointly) also participates in a DCAP and has contributed \$3,000 to that DCAP for the 2025 calendar year. When Andrea joins her new employer's DCAP, she may contribute up to \$2,000 for the remainder of the 2025 calendar year assuming her spouse does not contribute any additional amounts to a DCAP.

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