

New Year New Rules: Flexible Spending Accounts

by vcmorris - Thursday, January 06, 2011

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It's time to flex your money muscles and adjust your thinking about Flexible Spending Accounts.

FSAs are accounts where employees can set aside *tax-free* money to pay for out-of-pocket medical expenses. The account grows by you making equal, recurring contributions from your paycheck. So not only is this money tax-free, it's money that's designated - budgeted - to cover medical expenses.

To get started, all you need to do is decide how much money you want available in your FSA. This amount is divided by the number of paychecks you receive for the year and that amount is then withheld *before taxes* from each paycheck. You can save a significant amount of money this way.

This new year brings new Flexible Spending Account rules - one of the most significant of which relates to it being used to pay for over-the-counter medications. They are no longer allowed for purchase under the new Flexible Spending Account rules. So if you want to get a tax deduction for drug store products that you regularly buy and use - you're going to have to have a prescription from your doctor. Yes, even for things like Tylenol or Advil or your favorite cold medications. Consumers could lose up to \$1000 of tax break savings if not willing to go through the hassle (or your doctor's unwillingness to write prescriptions for these items). I think it's worth the trouble.

I also think it's imperative that anyone who has an FSA to *use it!* Financial specialists say only 1 in 3 eligible employees who have an FSA account - do. Unfortunately, if you're self-employed, a Flexible Spending Account is *not* available to you.

More suggestions for recalculating your family's relationship with money in my new book MIND OVER MONEY MATTERS: It's Your Money So Take It Personally™ now available for pre-order on Amazon.com. <http://www.amazon.com/Mind-Over-Money-Matters-Personally/dp/0982758812/>

Here's to your health and wealth.