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IRS Releases 2016 Inflation-Adjusted Amounts

The IRS has released 2016 inflation-adjusted amounts for various benefits. Issued under [Revenue Procedure 2015-53](#), the changes reflect annual cost-of-living adjustments and affect several benefits typically offered under employer-sponsored arrangements. This update summarizes key changes that may impact employer-sponsored health and welfare plans.

- **FSAs.** The 2016 annual plan year dollar limit on employee contributions to employer-sponsored healthcare flexible spending arrangements (FSAs) is \$2,550, unchanged from 2015. The limit for a dependent care FSA will remain \$5,000 for an individual or married couple filing a joint tax return, or \$2,500 per person for those married and filing separately.
- **Qualified Transportation Benefits.** The monthly limit on the amount that may be excluded from an employee's income for qualified parking benefits has increased to \$255 per month (up from \$250) for 2016. The combined monthly limit for transit passes and vanpooling (commuter highway) for 2016 remains at \$130.
- **Adoption Assistance Credit.** The maximum that can be excluded from an employee's income under an employer-provided adoption assistance program rises to \$13,460 for 2016 (from \$13,400). The credit begins to phase out for taxpayers with modified adjusted gross income in excess of \$201,920 (from \$201,010 in 2015) and is completely phased out for taxpayers with modified adjusted gross income of \$241,920 (from \$241,010 in 2015) or more.
- **Long-term Care.** The limitations regarding eligible long-term care premiums includible in the term "medical care" increased from 2015. The 2016 amounts are \$390 (attained age of 40 or less before close of tax year), \$730 (41-50), \$1,460 (51-60), \$3,900 (61-70) and \$4,870 (over 70).
- **Archer MSA.** For Archer Medical Savings Accounts (MSAs), the term "high deductible health plan" means, for self-only coverage, a health plan that has an annual deductible that is not less than \$2,250 (up from \$2,200 in 2015) and not more than \$3,350 (unchanged from 2015), and under which the annual out-of-pocket expenses required to be paid (other than for premiums) for covered benefits do not exceed \$4,450 (same as 2015). For family coverage, the term "high deductible health plan" means, a health plan that has an annual deductible that is not less than \$4,450 (unchanged from 2015) and not more than \$6,700 (up from \$6,650), and under which the annual out-of-pocket expenses required to be paid (other than for premiums) for covered benefits do not exceed \$8,150 (unchanged from 2015).
- **Small Business Tax Credit.** The Patient Protection and Affordable Care Act's Small

Business Tax Credit provides that the maximum credit is phased out based on the employer's number of full-time equivalent employees in excess of 10 and the employer's average annual wages in excess of \$25,900 for tax year 2016, up from \$25,800 in 2015.

- **HSAs/HDHPs.** The IRS released 2016 limits for contributions to health savings accounts (HSAs) for high deductible health plans (HDHPs) earlier this year. Please see our [Update](#) for more information on the 2016 HSA and HDHP limits.

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