

compliance ALERT

IRS Clarifies that COVID-19-Related PPE Qualifies as Medical Care Expenses

April 5, 2021

COVID-19 personal protective equipment (PPE) expenses now qualify for tax-free payment or reimbursement from healthcare flexible spending accounts (health FSAs), health reimbursement arrangements (HRAs), health savings accounts (HSAs) and Archer medical savings accounts (Archer MSAs). This includes masks, hand sanitizer, gloves, face shields, sanitizing wipes and other PPE purchased for the primary purpose of preventing the spread of COVID-19 for the purchaser, spouse or dependents.

If a group health plan currently does not allow expenses for COVID-19 PPE to be reimbursed, the plan may be amended to allow for reimbursement of COVID-19 PPE expenses incurred on or after January 1, 2020.

Regardless, a notice of this change should be communicated to all plan participants. Additionally, employers and plan sponsors should communicate with their FSA vendors, third-party administrators and other plan vendors to ensure that reimbursement is being handled properly under these new rules. ■

Action Required:

- Plan documents may be amended to allow for reimbursement of COVID-19 PPE expenses incurred on or after January 1, 2020.
- A notice of this change should be communicated to all plan participants.
- Employers and plan sponsors should ensure that reimbursement is being handled properly by vendors and third-party administrators under these new rules.

↓ Full Explanation Follows ↓

IRS Clarifies that COVID-19-Related PPE Qualifies as Medical Care Expenses

On March 26, 2021 the IRS [announced](#) that amounts paid for personal protective equipment (PPE) for the primary purpose of preventing the spread of COVID-19—such as masks, hand sanitizer, and sanitizing wipes—are treated as amounts paid for medical care under Code § 213(d) if purchased by an individual for use by that individual, or by the individual's spouse or dependents. This announcement (the "Announcement") means that payments for such PPE can now be reimbursed from healthcare flexible spending accounts (health FSAs), health reimbursement arrangements (HRAs), health savings accounts (HSAs) and Archer medical savings accounts (Archer MSAs).

How Does this Change the Law?

COVID-19 PPE expenses now qualify for tax-free payment or reimbursement from health FSAs, HRAs, HSAs, and Archer MSAs. Alternatively, these expenses—to the extent that they are not paid for, or reimbursed under, one of these types of plan arrangements or any other health plan—are deductible for federal income tax purposes if the taxpayer's total medical expenses (excluding those compensated for by insurance or otherwise) exceed 7.5% of adjusted gross income.

Would Amounts Paid for PPE not Mentioned in the Announcement, like Gloves or Face Shields, also be Reimbursable?

Yes, those types of PPE would also be included and would be reimbursable under these plans so long as they are for the primary purpose of preventing the spread of COVID-19.

What Should Employers and Plan Sponsors Do Next? Do We Need to Amend our Plan Document to Take Advantage of this?

As explained in the Announcement, if the terms of a group health plan's plan document (including a plan document for a health FSA or HRA) currently provide that expenses for COVID-19 PPE may not be reimbursed, the plan may be amended to allow for reimbursement of COVID-19 PPE expenses incurred for any period beginning on or after January 1, 2020. Amendments for this purpose must be adopted no later than the last day of the first calendar year that begins after the end of the plan year in which the amendment is effective. Additionally, retroactive amendments may not be adopted after December 31, 2022, and the plan's operations must be consistent with the amendment's terms beginning on the effective date of the amendment.

Regardless of whether your organization's plan document needs to be amended, a notice of this change should be communicated to all plan participants. Additionally, employers and plan sponsors should communicate with their FSA vendors, third-party administrators and other plan vendors to ensure that reimbursement is being handled properly under these new rules.

If you have any additional questions, please call your Corporate Synergies Account Manager or 866.CSG.1719.

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