Compliance Alert

IRS Releases 2026 Inflation Adjustments, Including FSA Maximums

PROVANT

IRS Announces 2026 Inflation Adjustments for Health FSAs, Transportation Benefits, and More

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The IRS issued Rev. Procedure 2025-32 listing certain tax inflation adjustments for a wide variety of benefits arrangements, including health FSA contribution limits, qualified transportation and parking benefits, qualified small employer health reimbursement arrangements (QSEHRAs), the small employer health insurance credit and other adjustments for the 2026 tax year. These adjustments are outlined below:

- **Health FSAs** - For plan years beginning in **2026**, the dollar limit for contributions to health flexible spending arrangements increases to **$3,400**, up from $3,300 in 2025. For plans that permit the carryover of unused amounts, the maximum carryover amount is **$680** for 2026, an increase from $660 in 2025.

- **Qualified Transportation and Parking** - For **2026**, the monthly limit for the qualified transportation fringe benefit and the monthly limitation for qualified parking increases to **$340**, up $15 from the $325 monthly limit in 2025.

- **QSEHRAs** - For **2026**, a Qualified Small Employer Health Reimbursement Arrangement must cap the total amount of payments and reimbursements to **$6,450** for self-only coverage and **$13,100** for family coverage.

WHAT'S NEW

Health FSAs
2026 contribution limit increases to **$3,400**, with a **$680** carryover cap.

Transportation & Parking
Monthly limit rises to **$340** (up from $325).

QSEHRAs & Adoption Assistance
QSEHRA caps increase to **$6,450** (self-only) and **$13,100** (family); adoption assistance exclusion rises to **$17,670.**

TAKEAWAY

Employers offering any affected benefit arrangements **should update plan documents, payroll systems, and employee communications** to reflect the 2026 limits and ensure compliance with IRS requirements.

- **Adoption Assistance Programs** - For **2026**, the maximum amount excludable from an employee's gross income under an employer-provided adoption assistance program for the adoption of a child is **$17,670**. This exclusion begins to phase out for individuals with modified adjusted gross income in excess of $265,080 and completely phases out at $305,080 modified adjusted gross income.

- **Small Employer Health Insurance Credits** - Adjustments impact the small employer health insurance credit because the maximum credit is phased out based on the employer's number of full-time equivalent employees in excess of 10. For **2026**, the average annual wage level at which the credit phases out for small employers is **$34,100** (up from $33,300 in 2025).

- **Failure to File ACA Information Returns (Forms 1095/1094-C and B)** – Failure to file returns in 2027 for calendar year 2026 are not changing. They remain $340 for each return, or $60 if corrected within 30 days of the required filing date, and $130 if corrected before August 1st.

- Note, employers responsible to provide Form 1095-B or 1095-C may incur two penalties. The employer must provide the IRS and the employee a copy, so the penalty applies for each failure.).

Employers providing any of the applicable arrangements need to ensure amounts are adjusted and communicated to employees, and plan documents are updated accordingly.

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