



IMPORTANT NOTICE REGARDING UNSUBSTANTIATED DEBIT CARD TRANSACTIONS

As your administrator, we want to be sure you understand IRS requirements that may require action on your part as an employer. We also want you to be aware of steps PacificSource Administrators (PSA) is taking to ensure that your plan(s) remains in compliance with regulations.

The Office of Chief Counsel for the Internal Revenue Service released a detailed memorandum in 2014 providing guidance on how to correct health FSA payments for expenses that are 1) not properly substantiated or 2) determined to be ineligible for reimbursement based on the documentation provided (improper payments). In this bulletin, we have provided an overview of the memorandum. If you would like to review the original document, visit: [IRS.gov/pub/irs-wd/1413006.pdf](https://www.irs.gov/pub/irs-wd/1413006.pdf) on the IRS.gov website.

- **Debit Card Correction Procedures.** The debit card correction procedures require five steps for improper debit card payments:
 - (1) deactivate the card,
 - (2) request repayment,
 - (3) withhold the payment from compensation (to the extent allowed by law),
 - (4) apply a claims substitution or offset, and
 - (5) treat the payment as any other business indebtedness (i.e., the same steps an employer would take to collect an equivalent business debt).
- **Order of Correction Steps.** Steps 2–4 of the correction procedures can be taken in any order, so long as the order is consistently applied for all participants. In contrast, **step 5 may only be applied after the employer has pursued all correction methods in the other steps.**
- **Reporting Improper Payments.** When step 5 is applied, the employer must first request payment consistent with its collection procedures for other business debts. If the payment is not recovered, the employer may forgive the indebtedness, in which case the payment should be reported as wages on Form W-2 for the year in which the indebtedness is forgiven. The reported amount is subject to withholding for income tax, FICA, and FUTA.

To keep your plan(s) in compliance with IRS guidance, **the following measures** (steps 1, 2, and 4) **are taken by PSA to help correct improper payments or debit card transactions.**

- Step 1: deactivate the debit card
- Step 2: request repayment of the ineligible amount
- Step 4: apply a claim substitution or offset for the ineligible amount

After taking these steps to correct improper payments, PSA will provide a list of transactions that were not resolved before the end of the plan year run-out period. This will be delivered with your annual year-end summary reporting. The reports will provide the information you need to complete steps 3 and 5.

If withholding the payment amount (step 3) isn't an option, and you can't recover the funds otherwise, you must report the payments as wages on the employee's Form W-2 (step 5).

Questions? We're happy to help. Please contact us at **800-422-7038** or PSACustomerService@PacificSource.com.