



Save Over 43% on Your Medical Expenses

Around this time of year I am often asked, "How can I plan for next year in order to reduce my taxes?"

My immediate response is to ask your employer if they offer a flexible spending account (FSA). A FSA allows your employer to withhold money from your paycheck and put it into a non-interest bearing account with a plan administrator. This money is put aside to pay for care of children and medical expenses for your family. As you incur these expenses you submit receipts with the plan administrator for reimbursement.

The advantage of this account is that you are paying for these medical and childcare expenses with pretax dollars rather than after tax dollars. This gives you a tax benefit at your highest tax rate. If you are a high wage earner this could be as much as 35%, a low wage earner would save 10%. In addition you are also eliminating FICA taxes, which are an additional 7.65%.

It is easy to see that by participating in a flexible spending account you can save anywhere from 17.65% if you are in a low tax bracket, all the way up to 42.65% in savings if you are in the highest tax bracket.

There are three limitations to these spending accounts.

1. The money is deposited into a FSA on a use it or lose it basis. (If you don't incur expenses that equal or exceed your withholding amount, you forfeit the difference).
2. Once you elect to participate, and the amount is withheld, you cannot change your withholding amount.
3. It often takes several weeks to receive reimbursement for your submitted expenses.

The flexible spending account does have some disadvantages, but through proper planning, the FSA can save hundreds and even thousands of dollars. You must often elect to participate by the first or second week of December for most employers.

If you are interested in learning more about flexible spending accounts or other year-end tax planning please call The Ruboyianes Company and we can discuss your personal tax situation.