

## **IRS Flex Spending Account (FSA) Debit Card Regulations - Effective Jan. 1, 2009**

*(Information current as of Aug. 19, 2008)*

- 1) What are the new regulations?
  - Beginning Jan. 1, 2009, IRS regulations specify that FSA and HRA debit cards may not be used at stores with the Drug Stores and Pharmacies merchant drug category code unless the merchant has an Inventory Information Approval System (IIAS), or unless 90 percent (90%) or more of the store's gross receipts during the prior taxable year consisted of items which qualify as expenses for medical care under Section 213 d of the IRS Code (including prescriptions and certain non-prescription medications). Some organizations have published information stating all pharmacies must have an IIAS system, that information is incorrect.
- 2) Does my pharmacy qualify for an exception as specified by the IRS?
  - If 90% or more of your store's gross receipts during the prior taxable year consisted of items which qualify as expenses for medical care under Section 213 d of the IRS Code (including prescriptions and certain non-prescription medications), then you are not required to have an IIAS.
- 3) What is an "inventory information approval system" (IIAS) as specified by the IRS?
  - An inventory information approval system, or IIAS, is a point-of-sale technology used by retailers that accept FSA debit cards. An IIAS must be able to do the following:
    - Identify eligible health care FSA/HRA purchases by comparing the purchased items' inventory control information (e.g. UPC or SKU number) against a pre-established list of eligible items.
    - Keep a separate total for the eligible items.
    - Charge the FSA/HRA card only for the eligible items total, and request another form of payment for any remaining items.
- 4) What are the various scenarios under the regulations?
  - Scenario #1: Pharmacy meets the 90% exception, and has a POS system
  - Scenario #2: Pharmacy meets the 90% exception, but does not have a POS system
  - Scenario #3: Pharmacy does not meet the 90% exception, and has a POS system
  - Scenario #4: Pharmacy does not meet the 90% exception, but does not have a POS system
- 5) What do I need to do if my pharmacy qualifies for the IRS exception?
  - TBD – Solution currently being developed by NCPA and other industry parties.
- 6) What do I need to do if my pharmacy does not qualify for the IRS exception?
  - At this time, there is one organization, SIGIS, that offers an IIAS to pharmacies. NCPA has not endorsed this organization at this time. An alternative solution is currently being evaluated by NCPA and other industry parties.
- 7) What is the Special Interest Group for IIAS Standards (SIGIS)?
  - SIGIS was formed to produce and promote a voluntary industry program designed to meet IRS requirements for operating an IIAS.
- 8) As additional information becomes available, where can I find it?
  - Visit the NCPA Web site ([www.ncpanet.org](http://www.ncpanet.org)) and Pharmacist e-Link ([www.pharmacistelink.com](http://www.pharmacistelink.com)) for information and updates.