

## **New IRS Ruling Allows Transfer of Unused Vacation and Sick Days to a Medical Reimbursement Plan**

The IRS had announced that it will allow employees to transfer unused vacation and/or sick day accruals on a non-taxable basis into a medical reimbursement plan.

IRS Revenue Ruling 2005-24 allows employers to transfer unused vacation and/or sick day accruals on a non-taxable basis into a medical reimbursement plan for employees or retirees. The ruling, which is effective for plan years beginning on or after January 1, 2006, offers tax-saving benefits to both employers and employees.

### **Benefits of this ruling for employers include:**

- Eliminate paying out large taxable cash amounts to employees at year-end or retirement.
- Enjoy payroll tax savings by unused vacation or sick day accruals being transferred to a non-taxable medical reimbursement plan.

### **Benefits for employees include:**

- Unused vacation and/or sick day accruals transferring to a medical reimbursement plan eliminates employees paying income tax on those funds.
- The medical reimbursement plan assists employees and/or retirees with the rising cost of healthcare expenses.
- The medical reimbursement plan funds may also be used by qualifying survivors and dependents of the employee.

### **Here are a few important things you should know:**

- If the plan is adopted by an employer, the regulations require an automatic transfer of the unused vacation or sick day accrual to the medical reimbursement plan for all employees or retirees.
- The plan may be established for active employees, retired employees, or both.
- All eligible employee must participate. This may have particular impact on collectively bargained employees.
- Unused funds can carry forward from year to year to assist employees and retirees with future medical related expenses.
- No cash-out or other choice options are allowed under the regulations. Funds not used for qualified medical purposes by the participant or their eligible dependents are forfeited.
- The medical reimbursement plan is classified as a Section 105 or Health Reimbursement Arrangement (HRA) plan.

More detailed information on Revenue Ruling 2005-24 can be found at [http://www.irs.gov/irb/2005-16\\_IRB/ar08.html](http://www.irs.gov/irb/2005-16_IRB/ar08.html).