



The Vita Viewpoint Important Information for Decision Makers

Non-Health Care Merchant Debit Card Transition Relief Granted

Background

The IRS published Notice 2006-69 which included guidance on the use of debit cards to reimburse participants through Flexible Spending Accounts, Health Reimbursement Accounts, and Health Savings Accounts. This guidance clarified use of the debit card at merchants who are coded under a non-health care category (such as grocery stores and variety stores).

The Issue in a Nutshell

The IRS's concern was that a person shopping at a merchant with a non-health care category could purchase an item with their debit card that would not be eligible, such as food or a television. The ruling clarified that the card can *only* be used at merchants that have implemented the use of SKU (Stock Keeping Units) level adjudication which allows expenses to be verified as eligible or ineligible at the point of sale. This effectively means that debit card purchases would be prohibited at grocery stores and variety stores, such as Safeway, Albertsons, Target, Wal-Mart, etc.

Many debit card vendors were allowing debit card users to purchase items at non-health care merchants where SKU level adjudication had not been implemented. Therefore in addition to clarifying that this practice is not acceptable, the IRS has granted transition relief for merchants and vendors in the industry to comply with the guidance.

Transition Relief

- **Merchants without Health Care Merchant Codes.** Examples include supermarkets, grocery stores, discount stores, and wholesale clubs. The card can be used at these merchants until December 31, 2007. Please note that documentation requirements still apply and are required.
- **Drug Stores and Pharmacies.** The card will not be allowed for use at drug store or pharmacies after December 31, 2008 unless the merchant has implemented an inventory information approval system (SKU level adjudication).

Commentary

Vita is pleased that a gray area has been defined, and we appreciate the transition relief period granted. Vita is also concerned that there might be backlash from participants who have become accustomed to using their debit card in this fashion. Vita will respond by launching a communication campaign explaining the new rules as the deadlines draw nearer. Importantly however, it is likely that the transition relief period will allow most merchants enough time to implement the SKU level adjudication systems that the IRS favors. This will be a boon to plans and participants alike.

For questions or additional information, please contact Vita Benefits Group at (650) 968-8811.