



IRS RECEIPT SUBSTANTIATION REQUIREMENTS

The Internal Revenue Service Governs Substantiation Requirements

The IRS has established specific guidelines that require all Flexible Spending Account (FSA) and Health Reimbursement Arrangement (HRA) transactions — even those made using a healthcare payment card — to be substantiated (verified that the purchase was an eligible medical expense).

The substantiation process is performed by HRC Total Solutions, LLC. We are very diligent in the execution of the substantiation process to avoid adverse tax consequences to participants.

There are two ways purchases may be substantiated in compliance with the IRS.

1. Auto-Substantiation
2. Manual Substantiation.

Auto Substantiation:

➤ A daily process is run to auto-substantiate VISA debit card claims using the specific methods setup for the employer group. These methods include co-pay substantiation and recurring auto-substantiation. Examples include:

- ✓ Copay matching: charges that exactly match the dollar amount, for up to 5 times the dollar amount, for a copay under the employer's insurance plan. For example, a \$20, \$30, or \$40 charge at a doctor's office or 5 times those amounts.
- ✓ Recurring claims: charges that exactly match the provider and dollar amount of previously approved and substantiated transactions. For example, a fixed monthly acupuncture visit. These will auto substantiate for a 12-month period.

IIAS & AUTO-SUBSTANTIATION

Inventory Information Approval Systems (IIAS) are a Federal Government mandated system used by merchants that identify eligible prescription and over the counter items and limit FSA and HRA healthcare services to only those eligible items.

This system makes it easier for account holders to manage eligible over-the-counter and pharmacy expenses, since the merchants automatically substantiate purchases at the point of sale.

All pharmacies, grocery stores, department stores, and wholesale clubs are required to implement the IIAS merchant program or they cannot accept healthcare payment cards. Merchants can register as a 90% merchant, if 90% of the items they sell are FSA eligible. The VISA debit card will work at a 90% merchant, but receipts will be requested to substantiate the purchase.

Manual Substantiation:

- All purchases that do not qualify for auto substantiation must be manually substantiated with receipts or other documentation. Examples include:
- ✓ Doctor, dentist, and other provider visits where the amount paid is not equal to a copay.
 - ✓ Prescription and over-the-counter transactions where the amount paid is not equal to a copay, at a store that is not IIAS compliant.

Information Required on Documentation:

All receipts or documentation must include the following information:



- ✓ Service date or purchase date (start date and end date)
- ✓ Description of service/item purchased (prescription, copay, office visit, glasses)
- ✓ Name of provider/merchant (where service provided or item purchased)
- ✓ Claim amount (dollar amount for the service/item)

EOBs contain all of the required information and are excellent sources of documentation. Credit card receipts and cancelled checks are not acceptable.

Receipts for over-the-counter (OTC) and prescription items do not need to include the person's name, but must display the name of the item (e.g. Band Aids).

Please Note: Some over-the-counter items may require a prescription from your doctor, indicating it is medically necessary.

Always Save Itemized Receipts:

Consumers should save their itemized receipts from every healthcare payment transaction and all of the explanation of benefits (EOBs) they receive from health/pharmacy/dental plans.

An easy approach for keeping this information on hand is to upload copies of itemized healthcare receipts and EOBs to the Dashboard page of the Participant Portal, where they will be stored electronically. Receipts can also be attached to the expense from the mobile app using the camera on your mobile device! Otherwise, designate an envelope or folder to store documentation in your personal files. Using this process will help consumers find documentation if requested by HRCTS or if ever audited by the IRS.

Common Misconceptions about Receipt Requirements

1. If the Debit Card is used for an eligible service, no further receipts or documentation are needed to support the expense.
2. Any claim at a doctor, dentist or vision provider will not require receipts.

These misconceptions are **NOT TRUE!** Since not all services from a medical, dental, vision or a non IAS pharmacy provider are eligible expenses, itemized receipts are required to verify eligibility. For example, a dentist may perform teeth whitening, which is not eligible for reimbursement.

HRC Total Solutions and its affiliates do not provide tax, legal, or accounting advice. This material has been prepared for informational purposes only, and is not intended to provide and should not be relied upon for tax, legal, or accounting advice. You should consult your own tax, legal and accounting advisors before engaging in any transaction.

Contact Customer Service: Monday – Friday 8:30am-7:30pm EST

 (603) 647-1147 Option 1  (866) 978-7868  customerservice@hrcts.com  LiveChat