

# COMPLIANCE BULLETIN

## Dependent Care FSA Limit Will Increase in 2026

Effective for taxable years beginning after 2025, the [One Big Beautiful Bill Act](#) (OBBA Act) increases the maximum annual contribution limit for dependent care flexible spending accounts (FSAs) to **\$7,500** (or **\$3,750** for married individuals filing separate tax returns).

As background, employers can provide dependent care benefits for their employees on a tax-free basis, subject to a maximum annual limit. These programs are also known as dependent care assistance programs (or DCAPs). Most dependent care FSAs are structured so that employees make contributions on a pre-tax basis through a Section 125 cafeteria plan. When employees incur eligible dependent care expenses, such as expenses for babysitting, child care or day camp, they can seek reimbursement from their dependent care FSA.

Currently, the annual contribution limit for dependent care FSAs is \$5,000 for single individuals and married couples filing jointly and \$2,500 for married individuals filing separately. This limit, which is not indexed for inflation, has been in place since 1986 (except for a temporary increase during the COVID-19 pandemic). Effective Jan. 1, 2026, the OBBA Act increases this limit to \$7,500 (or \$3,750 for married individuals filing separately).

### Action Steps

Employers that increase the contribution limit for their dependent care FSAs for 2026 should consider the following steps:

- Assess how the increased limit may impact the plan's annual nondiscrimination testing results, particularly the 55% average benefits test;
- Review the written plan document to determine if updates are necessary due to the increased limit; and
- Communicate the new limit to employees as part of the open enrollment process.

### Increased Limit

- The OBBA Act increases the maximum annual contribution limit for dependent care FSAs, effective Jan. 1, 2026.
- This is the first time the limit has increased since 1986 (except for a temporary pandemic-related change).
- The limit is not indexed for inflation.
- Effective Jan. 1, 2026, the new limit is \$7,500 (or \$3,750 for married couples filing separately).

### Nontaxable Benefits

Dependent care FSA benefits are nontaxable if they reimburse expenses that are:

- For the care of a qualifying individual (e.g., a child under the age of 13); and
- Incurred to enable the employee (and their spouse, if applicable) to be gainfully employed.