

An IIAS Update
Using Benefits Cards in Pharmacies and Drugstores
after June 30, 2009

IRS Regulation

The following IRS notice was issued on December 22, 2008. It extended the effective date to July 1, 2009 when benefit debit cards can be used in pharmacies and drugstores only if the merchant utilizes an inventory information approval system or meets the 90% rule, as further described below:

“Notice 2008-104

Additional Transition Relief With Respect to Debit Cards and Medical Expense Reimbursements

PURPOSE

This notice provides additional transition relief with respect to the use of debit cards for medical expense reimbursements at stores with the Drug Stores and Pharmacies merchant category code.

BACKGROUND

Notice 2007-2, 2007-1 C.B. 254, provides that after December 31, 2008, health FSA and HRA debit cards may not be used at stores with the Drug Stores and Pharmacies merchant category code unless: (1) the store participates in the inventory information approval system as described in Notice 2006-69, 2006-2 C.B. 107, or (2) on a store location by store location basis, 90 percent of the store’s gross receipts during the prior taxable year consisted of items which qualify as expenses for medical care under § 213(d) (including nonprescription medications as described in Rev. Rul. 2003-102, 2003-2 C.B. 559).

For transactions using debit cards at stores that meet the 90 percent rule described in (2) above, employers must treat all charges to the debit card as conditional (other than copayment matches, recurring expenses, and real-time substantiation as described in Rev. Rul. 2003-43, 2003-1 C.B. 935) pending substantiation of the charges through additional independent third-party information describing the goods or services, the date of the service or sale, and the amount of the charge.

TRANSITION RELIEF

The deadline in Notice 2007-2 is extended by six months so that, after June 30, 2009, health FSA and HRA debit cards may not be used at stores with the Drug Stores and Pharmacies merchant category code unless the requirements of (1) or (2) above are satisfied.”

<https://www.sharemethods.net/nepal/servlet/open?keepath=false&aid=23651>, which contains the names of participating pharmacies, discount stores, department stores and supermarkets that utilize an IIAS, **AND** the **90% Rule Merchants List** at **<http://www.sig-is.org/imwp/web3/forms/sigis/Reports.aspx?ReportName=DBAList&ReportFormat=PDF>**, which contains the names of pharmacies that comply with the 90% rule. Cardholders should be encouraged to check these merchant lists to determine where they can use their Cards. Otherwise, their Cards may decline.