IRS FAQs on Wearable Devices

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The IRS recently updated FAQs that address whether certain costs related to nutrition, wellness, and general health are medical expenses under Code Section 213.

Qualified medical expenses may be paid or reimbursed on a tax favored basis under a health savings account ("HSA"), health flexible spending arrangement ("health FSA"), or health reimbursement arrangement ("HRA").

The latest FAQ addresses when the cost of a wearable device that tracks bodily functions or other health related information, such as a band, watch, ring, patch, sensor, or similar device, can be paid or reimbursed by a health FSA, HRA, or HSA.

According to the IRS guidance, whether the cost of a wearable device is a medical expense depends on all the facts and circumstances, including the device's functions and the reason it was purchased and used.

- A wearable device that has **both medical and nonmedical uses** (such as tracking general wellness information, fitness, or sleep, as well as other personal uses) **is not automatically a medical expense** merely because the device tracks information that relates to health generally, or because it tracks bodily functions like blood pressure or blood glucose levels that are or can be affected by specific diseases.
    - For example, a wearable device for the generalized desire to monitor or improve health is not a medical expense.
- A wearable device **is a medical expense** if the individual **purchases and uses the device primarily to assist in the diagnosis, cure, mitigation, treatment, or prevention of a specific disease**. Relevant facts and circumstances to support this determination may include:
    - A recommendation from a medical practitioner;
    - The individual's symptoms, diagnosis, abnormal test results, or risk factors;
    - The relationship between the information tracked and the disease being evaluated or managed; and

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- The way the information is reviewed or used.

- The cost of any accessories, add-ons, or software subscriptions used with the device also is a medical expense only if those items are purchased primarily to serve that medical purpose.

Employer Action

Wearable devices are incredibly popular, and their use for both medical and general health purposes continue to grow. The IRS guidance provides needed clarification on when these devices may be considered qualified medical expenses.

Administrators of tax-favored accounts, like health FSAs and HRAs, will need to use a facts and circumstances approach when evaluating claims for reimbursement of these devices.

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