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IRS issues new Guidance on OTC drug purchases and Debit Cards

The Internal Revenue Service issued new guidance on over-the-counter drugs (OTC) and the continued use of debit cards for the purchase of prescribed over-the-counter drugs. In accordance with the Patient Protection and Affordable Care Act, over-the-counter drugs were no longer eligible for reimbursement under a Unreimbursed Medical spending (URM) account after December 31, 2010, unless they were prescribed by a physician.

The new guidance modifies previous guidance to permit taxpayer to continue to use debit cards to purchase over-the-counter medication for which the taxpayer has a prescription. Effective January 15, 2011, the guidance allows participants that have been issued a debit card tied to their URM spending account, to use their card for OTC purchases if the pharmacy, mail order or web based vendor have the following procedures in place:

- 1) Prior to the purchase, a prescription for the OTC medicine or drug must be presented to the pharmacist. The OTC drug must be dispensed by the pharmacist in accordance with applicable law and regulations pertaining to the practice of the pharmacy, and a Rx number must be assigned.
- 2). The pharmacy or vendor must retain a record of the Rx number, the name of purchaser (or the name of the person for whom the prescription applies) and the date and amount of the purchase in a manner that meets IRS record keeping requirement.
- 3). All records must be available to the employer or its agent upon request, and
- 4). The debit card system cannot accept a charge for an OTC medicine or drug unless an RX number is assigned.

If all the above requirements are met, then the purchase will be considered fully substantiated at the time and point of sale, and no follow-up will be required. This is good news for those that are utilizing the SABCFlex card and have prescription for OTC drugs and/or medicines. In addition, participants that do not use the card can follow the same procedures, and get a receipt with the Rx number, name of drug, patient name and date on it to submit for reimbursement.