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## Get Up-To-Date with IRS Mandates for Over-The-Counter Medical Sales

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If you're a pharmacy or drug store merchant with a merchant category code (MCC) of 5912 or 5122, your business will be impacted by the latest Internal Revenue Service (IRS) mandate concerning health spending accounts and approved inventory systems. To ensure your customers can continue using their Flexible Spending Accounts (FSA) and Health Reimbursement Accounts (HRA) debit cards, you need to have an Inventory Information Approval System (IIAS) installed and operational on all point-of-sale (POS) systems.

IIAS is a POS-installed database of FSA and HRA eligible medical products. The system compares items scanned at checkout against the list of eligible products. The IIAS program was developed by the Special Interest Group for IIAS Standards (SIGIS) — a group of companies involved in supporting FSA and HRA debit card transactions. The group's purpose is to develop a standard industry solution — IIAS — that is consistent with IRS requirements. SIGIS aims to make adopting IIAS programs easier so your business can continue to offer convenient payment options like FSA and HRA.

Installing IIAS reduces consumers' potential misuse of FSA and HRA cards by providing a convenient means of substantiating transactions at the point of sale. With IIAS, healthcare items are scanned and then compared to a list of eligible products — those items SIGIS considers medically-related per IRS-published guidelines. (See the sidebar "Eligible Over-the-Counter Medical Products" for definitions and examples of these products.)

The IIAS program automatically totals the amount of eligible healthcare products and inserts it in the authorization request which is sent to the FSA/HRA card issuer for approval in accordance with IRS requirements. For the customer and your cashier, this may mean a split tender is necessary — an HRA or FSA card can only be used for over-the-counter products on the "eligible" list, prescriptions and medical services. Another form of payment must be used for the rest of the purchase.

If you own a drug store or pharmacy, after January 1, 2009, your customers' FSA and HRA transactions will be declined if your system doesn't meet the IRS requirements. This rule

does not apply to Health Savings Account (HSA) cards, which are used for items not covered by medical insurance.

Currently, you're not fined if you don't comply with the IRS mandate — but you risk losing customers and revenue if you can't accept FSA and HRA cards. To update your POS system and add a SIGIS-endorsed IIAS program, you first need to be a SIGIS member. Simply contact Heartland Payment Systems — or your payments processor — for assistance with registration so you don't risk interruption to your business — and ensure your customers can continue using their FSA and HRA cards for over-the-counter medical purchases.

### Are You Expected to Support an IIAS?

Merchants who are expected to support an IIAS by January 1, 2009:

Type of Merchant	MCC
Drug Stores/Pharmacies	5912
Druggist/Druggist Proprietaries	5122



*Betsy Boland is the compliance program implementation coordinator at Heartland Payment Systems. Heartland, a NYSE company trading under the symbol HPY, delivers credit/debit/prepaid card processing, payroll, check management and payment solutions to more than 250,000 business locations nationwide.*

*Heartland is the founding supporter of The Merchant Bill of Rights, a public advocacy initiative that educates merchants about fair credit and debit card processing practices. For more information, contact Heartland Payment Systems at 866.941.1HPS (1477) or visit [HeartlandPaymentSystems.com](http://HeartlandPaymentSystems.com) and [MerchantBillOfRights.com](http://MerchantBillOfRights.com).*

## Eligible Over-the-Counter Medical Products

Check the following list for definitions and examples of over-the-counter healthcare items eligible for purchase using an HRA or FSA card per IRS-published guidelines.

Eligibility	Definition	Examples
Eligible	Over-the-counter products that are for medical care and are primarily for a medical purpose. They include medicines or products that diagnose, alleviate or treat existing or imminent injuries, illnesses or medical conditions.	Pepcid AC, Benadryl, peroxide, Robitussin, thermometers
Dual Purpose - Not included as eligible products for IIAS approval	These products have both a medical purpose and a personal/cosmetic or general health purpose. To be considered eligible, they must be used to treat a medical condition. A letter of necessity from a licensed healthcare professional is required for FSA and HRA eligibility. These items are not included on the IIAS list.	Clearasil, Huggies, Pediasure, Benefiber, Kotex
Ineligible	Products that merely benefit general health or are for cosmetic/personal hygiene.	Pantene, Dial soap, ChapStick, toothpaste, Gatorade

A complete list is available from SIGIS once you become a member.