CARROT

Planning for expenses and tax handling

Expenses are reviewed and then approved or denied as they are received from members. Each month, Carrot will process expenses according to the following timeline. Based on specific criteria, different expenses have different tax implications that are important to identify and ideally automate. The following sample table describes standard reimbursement timing, which is subject to change.

Monthly timeline

1st	1st business day of the month	Carrot issues monthly billing statement	Aggregate total of all OOP expenses approved in the previous month
7th	Within the first 7 days of the month	Carrot pulls funds via ACH debit from your customer bank account for all OOP expenses	Requires bank authorization form completion by your team
10th	By the 10th day of the month	Carrot issues reimbursement to each employee for OOP expenses	Reimbursement issued to the member-provided bank account
15th	By the 15th day of the month	Carrot issues a monthly utilization report to you for all expenses	Detailed .csv report of expenses by employee ID and type for tax handling

Weekly timeline

Monday	Each Monday	Carrot issues weekly billing statement	Aggregate total of all OOP expenses approved from Saturday – Friday of the previous week
Wednesday	Net 3 terms	Carrot pulls funds via ACH debit from your customer bank account for all OOP expenses	Requires bank authorization form completion by your team
Friday	Each Friday	Carrot issues reimbursement to each employee for OOP expenses	Reimbursement issued to the member-provided bank account
Monday	Each Monday	Carrot issues a weekly utilization report to you on Mondays for all expenses paid in the prior week	Detailed .csv report of expenses by employee ID and type for tax handling



What is a taxable expense?

In the U.S., certain medical expenses can be excluded from taxable income. The IRS has issued guidance that medical expenses necessary “to overcome an inability to have children” may be excluded. Based on this guidance, most customers choose not to tax qualified medical expenses for infertility, menopause, low testosterone, gender-affirming care, or medically necessary travel, but do treat elective fertility care (e.g., preservation) as taxable.

For any taxable expenses, the amounts may be reported as imputed income and subject to local, state, and federal tax withholding. Generally, customers choose to withhold these taxes on a monthly basis to spread out the taxable amount as much as possible over time. Taxes will depend on how many reimbursements employees submit each month.

Outside of the U.S., due to the complexity of global tax regimes, customers generally treat eligible expenses as taxable.

U.S. tax information

The following is general information based on how some customers choose to interpret federal tax rules as they apply to Carrot benefits in the U.S.

Medical fertility care

- Non-taxable for medical diagnosis of infertility or other medical necessity as defined by Internal Revenue Code (IRC) Section 213(d)
- Taxable for all other services

Qualified adoption expenses

- Subject to Medicare, Social Security, and Federal Unemployment Tax Act (FUTA)
- All amounts to be reported on Form W-2, Box 12, Code T
- Amounts up to the IRS limit ($17,670 in 2026) are excluded from gross income but are included in Boxes 3 and 5 of Form W-2 (i.e., although not considered wages for income tax withholding purposes, amounts paid under a qualified adoption assistance program are considered to be wages subject to withholding for federal Social Security and Medicare tax Federal Insurance Contributions Act [FICA] and FUTA)
- Amounts exceeding the IRS limit are reported in Box 1 as standard taxable compensation and subject to normal withholding and all applicable payroll taxes

Gestational surrogacy services

- All gestational surrogacy services are considered taxable

International tax guidelines

All expenses paid with employer-sponsored funds are usually considered taxable.

Mapping taxable flags for payroll automation

Members' covered expenses and approved reimbursements made by Carrot on behalf of their employers may be subject to specific taxation or may be exempt, depending on the customer's tax determinations. Carrot will provide your payroll team with a .csv file on Mondays (if receiving these reports weekly) or by the 15th of each month (if receiving these reports monthly) with specific flag identifiers so that your systems can be programmed to set flags and automate withholding and tax reporting based on your preferences. The following is an example of that data set.

Medical	Adoption	Gestational surrogacy	U.S tax status	International tax status
Y	N	N	Non-taxable	Taxable
N	Y	N	Taxable†	Taxable
N	N	Y	Taxable	Taxable
N	N	N	Taxable*	Taxable

Optional gross up

Because the U.S. tax code disadvantages same-sex couples compared to heterosexual couples based on IRC Section 213(d), and because all expenses for international members may be considered taxable, many customers gross up reimbursements to allow members to realize the full monetary benefit. If you pay a "gross up" amount, it is intended to cover the tax liability for taxable reimbursements.

†U.S. adoption tax guidelines

Expenses incurred in adopting the child of a spouse do not meet the IRS definition of a qualified adoption expense and will be reported as N/N/N (i.e., taxable).

*Non-tax dependents

Non-tax dependents are partners who do not meet the IRC Section 152 dependent definition (e.g., domestic partners not claimed as dependents on tax filings). Expenses paid for a non-tax dependent are reported in the taxable row, and employers generally treat these amounts as additional taxable income.

Disclaimer

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