



# benefit strategies

## Dependent Care Assistance Account (DCA)

Under the Flexible Spending Account (FSA) is the Dependent Care Assistance Account (DCA). This program allows you to take money out of your paycheck on a pre-tax basis, which you can use for all of your eligible dependent day care expenses. Since the money you choose to put into these accounts is not considered taxable income, you save by paying less Federal, State and FICA taxes. You could save between \$22.65 and \$48.65 on every \$100 you choose to defer into these accounts.






To best use this account you need to conservatively estimate how much money you expect to spend for the year on dependent day care expenses while you and your spouse (if applicable) are gainfully employed. Once you arrive at your estimate for the year you divide your total election by the number of pay periods. This amount will show you how much money will be coming out of your paycheck each pay period. When enrolled, this pre-tax money goes into your DCA account which is managed by Benefit Strategies. As you incur day care expenses, you may submit claims to draw the money out of your account. You will then be reimbursed up to the amount currently in your DCA account. The money is not available up front like a Health Care Reimbursement account; you are limited to the cash amount currently credited in the account, but you can file your claim for what you have actually paid for day care.

When enrolling, the maximum reimbursement you can elect to contribute to the DCA is \$5,000 per year, \$2,500 if you are married and filing separately. Please refer to your summary plan description for your plan maximum. In addition, your election is limited to the amount earned by the lower earning spouse. If your spouse earns \$3,000 a year you cannot elect \$5,000 in your DCA. The maximum you could elect for the year would be \$3,000.

### Eligible expenses include

- Before and After-school programs
- Au Pair (procurement or fees for finding an Au Pair are not)
- Babysitter inside or outside the home
- Day Camps
- Day Care Center
- Nursery School
- Relative or dependent that cares for your children
  - o Must be over 19
  - o Cannot be claimed on federal tax return

### Please keep in mind!

-  Expenses must be used to allow a single parent or both spouses to be gainfully employed or attend school full time.
-  Dependent must spend at least 8 hours per day in your home.
-  Dependent must be under age 13 or physically or mentally incapable of caring for themselves.
-  You can enroll in an DCA even if you are not participating in your Employer's medical plan.
-  Annual elections are not available up front like a HCA account; you are limited to the cash amount in the account.

## Election Worksheet

Eligible weekly dependent day care cost:	(A) \$
How many weeks of dependent care you will have in the Plan Year	(B) \$
<b>Total cost of dependent day care for the Plan Year (A x B):</b>	<b>(C) \$</b>
Enter the Maximum Benefit Allowed: \$2,500 if married filing separately; \$5,000 if single or married filing jointly	(D) \$
How much do you wish to contribute this Plan Year? <b>Enter the lesser of either (D) or (C)</b>	(E) \$
How many pay periods will there be in the Plan Year?	(F) \$
<b>This will be your pre-tax salary reduction per pay period: Divide the amount in (E) by (F)</b>	<b>(G) \$</b>

# Dependent Care Assistance Account & Federal Income Tax Credit Comparison

Under the IRS code, two tax advantage options are available for dependent care expenses. You may use one or the other, or a combination of both, as long as you do not obtain pre-tax treatment and file for a tax credit on the same money. You should consult a qualified tax advisor to determine which option is best for you.



## Option 1: Dependent Care Reimbursement Account

Using the Dependent Care Reimbursement Account you may put up to \$5,000 (\$2,500 if married and filing separately) into your account on a pre-tax basis. The maximum that can be used for this account does not coincide with the number of children in daycare. You will save Federal Income Tax (15% to 35%), FICA (7.65%), and State Income Tax (0-6+%) on any money contributed. The savings range from 22.65% to 48.65% depending on your federal tax bracket and state you live in.



## Option 2: Federal Income Tax Credit

You are allowed to take a credit on your personal taxes, for the work-related child and dependent care expenses you incur. The maximum expense that may be considered is \$3,000 for one qualifying dependent or \$6,000 for two or more. However, only a percentage of these expenses may be deducted. The percentage depends on your adjusted gross income (or joint adjusted gross income if you and your spouse file a joint return.) You may take a credit of between 20% and 35% of your dependent care expenses, as shown on the chart below:

Adjusted Gross Income			Tax Credit Percentage
\$43,001	To	No limit	20%
\$41,001	To	\$43,000	21%
\$39,001	To	\$41,000	22%
\$37,001	To	\$39,000	23%
\$35,001	To	\$37,000	24%
\$33,001	To	\$35,000	25%
\$31,001	To	\$33,000	26%
\$29,001	To	\$31,000	27%
\$27,001	To	\$29,000	28%
\$25,001	To	\$27,000	29%
\$23,001	To	\$25,000	30%
\$21,001	To	\$23,000	31%
\$19,001	To	\$21,000	32%
\$17,001	To	\$19,000	33%
\$15,001	To	\$17,000	34%
\$15,000	To	Less	35%