

Information about your dependent care benefits

Working families have some options to help with the cost of their dependent care expenses. Below is a brief overview of the DCAP benefits and the dependent care tax credit. As each individual's situation is different, you may wish to consult with your tax advisor to determine whether the DCAP or the tax credit is a better option.

Dependent care tax credit

The dependent care credit offsets the costs associated with dependent daycare care expenses. For the 2021 tax year, the dependent care tax credit will be significantly expanded.

Specifically, the credit is fully refundable and the maximum credit percentage increases to 50% (from 35%). The credit percentage gradually phases down to 20% for individuals with adjusted gross income (AGI) between \$125,000 (currently \$15,000) and \$183,000, and completely phases out for individuals with AGI in excess of \$438,000. The amount of dependent care expenses eligible for the credit increase to \$8,000 (from \$3,000) for one qualifying individual and \$16,000 (from \$6,000) for two or more qualifying individuals (such that the maximum credits are worth \$4,000 and \$8,000 based on the 50% maximum credit percentage).

If your family qualifies, the amount of the tax credit you receive directly reduces your taxes, dollar for dollar. For example, a \$1,000 tax credit decreases your tax bill by \$1,000.

Dependent Care Assistance Program (DCAP)

Under a DCAP (sometimes referred to as a Dependent Care FSA), you set aside funds from your paycheck on a "pre-tax" basis in your own account. This means the funds you elect are taken out of your paycheck before taxes are taken. More details on the DCAP are in the SPD for [Name of Plan].

At the end of the tax year, you will receive a Form W-2 that will reflect a reduction in your taxable income equal to the DCAP and any other pre-tax deductions.

You need to choose one or the other

You cannot claim a tax credit for the same expenses on your income tax return for which you are reimbursed under the DCAP. Work with your tax advisor to determine which is the better option for your particular situation.