



## **Flexible Benefits: Dependent Care Reimbursement Account**

*A Dependent Care Reimbursement Account offers you the opportunity to save tax dollars while paying for dependent care expenses. It offers an affordable solution to the steadily rising costs associated with caring for children, disabled spouses, or elderly parents.*

### **What is a Dependent Care Reimbursement Account?**

With a Dependent Care Reimbursement Account, you can set aside money to pay for certain dependent care expenses. The money you place in your Dependent Care Reimbursement Account is taken out of your paycheck *before* taxes. This lowers your taxable income and means more take-home pay for you to enjoy.

The Dependent Care Reimbursement Account covers day care, home, or nursery care expenses for dependent children under age 13\*. In certain situations, you can also use it when you're providing support for a disabled spouse, child, or a parent who lives with you.

### **How much money do I need to contribute to my account?**

The amount of money you put into your Dependent Care Reimbursement Account depends on how much you believe your child or dependent care expenses will be for the year. Use the worksheet provided to estimate your dependent care expenses.

You estimate your dependent care expenses for the upcoming year. Money is taken out of your paycheck before taxes are withheld and placed in your account throughout the year.

Your taxable income is reduced and results in more take-home pay for you. You are reimbursed from your account for qualified dependent care expenses.

\* The cost of a kindergarten program is *not* a childcare expense for which you can be reimbursed if the program's intent and purpose is primarily educational. Overnight camp expenses are also not qualified.

## Can I really save money?

Yes, for example, your total family income is \$30,000 per year, you have one child, and \$2,400 in eligible dependent care expenses. In this example (assuming the appropriate level of tax payments and Social Security contributions), you'd save about \$45.30 a month or \$543.60 a year by using a Dependent Care Reimbursement Account. If you consider state taxes, you could save even more.

It's important to remember your level of savings depends upon a number of factors including your:

- Earnings
- Tax deductions
- Current tax status
- Dependent care costs
- Other income

	<b>Without Dependent Care Reimbursement Account</b>	<b>With Dependent Care Reimbursement Account</b>
Gross Monthly Salary	\$2,500.00	\$2,500.00
Reimbursement Account	<u>0.00</u>	<u>- 200.00</u>
Taxable Pay	\$2,500.00	\$2,300.00
Federal Income Tax	- 375.00	- 345.00
Social Security (7.65%)	<u>- 191.25</u>	<u>- 175.95</u>
Pay After Taxes	\$1,933.75	\$1,779.05
Dependent Care Expenses	<u>- 200.00</u>	<u>0.00</u>
Take-Home Pay	\$1,733.75	\$1,779.05

Monthly Savings \$45.30

Another thing to consider is the potential impact on your post-retirement income. Because your taxable income is less with the Dependent Care Reimbursement Account, it's possible your future Social Security benefits might be a little lower when you retire. Most of the time your tax savings will more than make up for any reduction in Social Security benefits.

## What does the IRS say?

Estimating your expenses as accurately as possible is very important. Why? Because any extra money left in your account at the end of the year *cannot* be returned to you.

The Internal Revenue Service (IRS) has placed this strict rule on Dependent Care Reimbursement Accounts, which are made possible by Section 125 of the Internal Revenue Code, because of the special tax treatment they receive.

IRS regulations limit the amount you can contribute to the Dependent Care Reimbursement Account to \$5,000 for a single parent, \$5,000 for a married parent filing jointly, and \$2,500 for a married parent filing separately.

## What else do I need to know?

- To be eligible for reimbursement, you *must* be working while your dependents receive care.
- If you're married, your spouse *must* be a wage earner, a full-time student, or must be disabled and unable to provide for his or her own care.
- You *cannot* claim dependent care expenses that are more than your annual salary or your spouse's annual salary (whichever is less).
- If your spouse is disabled or a full-time student, the IRS assumes your spouse earns \$250 a month (one dependent), or \$500 a month (two or more dependents).

## Can I still use the dependent care tax credit?

By law you cannot use a Dependent Care Reimbursement account *and* the dependent care tax credit on your tax form for the same dependent care expenses. Furthermore, the maximum amount you can claim for the tax credit (\$3,000 for one qualifying individual; \$6,000 for two or more qualifying individuals) must be reduced by your dependent care account reimbursements.

### *Example:*

*If you have two dependents and contribute \$5,000 to your reimbursement account, by law you must subtract that \$5,000 from your tax credit maximum (\$6,000). Doing this leaves you with only \$1,000 in dependent care expenses that can still be claimed when filing your federal tax return.*

The best method for you – tax credit or a reimbursement account – depends upon your own personal income and overall financial situation. Generally speaking, if your family's adjusted gross income is below \$39,000, using the federal tax credit may save you more money but you have to wait until you file your taxes to receive the benefit. However, if your family's income is higher or if you spend substantially more than \$3,000 on dependent care, the dependent care account may be the better choice.

Consult a qualified tax advisor for more information.

## **Dependent Care Reimbursement Account Worksheet**

Use this worksheet to estimate your dependent care expenses for the coming year and decide how much you need to set aside in your Dependent Care Reimbursement Account.

To estimate your expenses for the coming year, fill in the amounts you spent last year on the types of expenses listed on the left. You can then use these amounts to estimate your expenses for the coming year.

Remember, only those expenses necessary to provide care for a dependent while you (and your spouse, if married) are working are eligible for reimbursement. A dependent can be any one of the following: a child under age 13, a disabled child, a disabled spouse, or a disabled dependent parent.

<b>TYPE OF EXPENSE</b>	<b>LAST YEAR</b>	<b>COMING YEAR ESTIMATE</b>
Day Care Center	\$ _____	\$ _____
Nursery School	\$ _____	\$ _____
Before/After School Care	\$ _____	\$ _____
Dependent Care Services <i>(provided in or outside of your home)</i>	\$ _____	\$ _____
Other Child or Adult Care Services	\$ _____	\$ _____
<b>TOTALS</b>	<b>\$ _____</b>	<b>\$ _____</b>

*Contact your First Administrators representative today if you have any questions regarding Dependent Care Reimbursement Accounts or need assistance with the enrollment process.*

### **How do I access my money?**

When you have an eligible dependent care expense, submit a claim form and a third party verification of the expense. Once approved, you will then be reimbursed with tax-free dollars from your account.

### **How do I enroll?**

The worksheet above is designed to help you determine how much to contribute to your Dependent Care Reimbursement Account. Once you're satisfied with the amounts on the worksheet, complete an enrollment form.

### **Can I enroll later or change my mind?**

To gain the tax advantages of this plan, you must enroll before your benefit "plan year" begins. You may then change your election prior to each plan year or when there is a qualifying status change. Qualifying status changes are governed by your plan and may include changes in:

- Marital status (marriage, death, divorce, etc.)
- Number of dependents (birth, adoption, placement for adoption, etc.)
- Employment status (termination, commencement of employment, etc.)
- Dependent ceasing to satisfy eligibility requirements
- Residence

A change must be consistent with the event that is occurring. Please contact your personnel office with any questions you may have as to whether your situation qualifies.

*NOTE: The Dependent Care Reimbursement Account is made possible by Section 125 of the Internal Revenue Code.*