

Dependent Care Spending Accounts



Eligible Expenses

Eligible expenses are amounts you pay for the care of your qualified dependent. Care must be provided in order for you to work. If you are married, your spouse must also work or attend school as a full-time student. Provided all Internal Revenue Service "IRS" provisions are met, eligible dependent care expenses include:

- Nursery school, day camp, day care, after-school care for a qualified dependent child;
- Nursing or custodial care for an elderly or disabled dependent who lives with you at least eight hours per day and is unable to care for himself/herself; and
- Dependent care businesses or individuals (other than another one of your dependents under age 19) that provide care for your eligible dependent(s).

Eligible Dependents

You are able to make a claim for individuals who meet both the definition of a dependent in Sec. 152 of the IRS Code and the criteria for dependent care in Section 125 of the IRS Code:

- A dependent child who is under the age of 13,
- A spouse who is physically or mentally incapable of caring for himself/herself, and
- A dependent who is physically or mentally incapable of caring for himself/herself.

Maximum Election

Your annual maximum contribution is limited to amount established by the IRS. Current maximums are \$2,500 per plan year if you are married and file a separate return; all other individuals may elect up to \$5,000. You are free to elect any contribution amount up to that maximum. Your election is not available for reimbursement until your withholding has been credited to your account.

Effect on your Annual Income

Your Federal Income Tax, Social Security and Medicare Tax withholdings will be reduced. Since your federal taxable income will be reduced by the amount of your contributions, you will take home more of your pay. Your own tax savings may vary - consult your financial or tax consultant.

The IRS currently permits some tax credits for dependent day care expenses. The IRS tax credit is available for your dependent care expenses that are not reimbursed by your Dependent Care Spending Account.

Example of the effect of a Healthcare Spending Account on your Annual Income

Assume two single employees have the same salary and both have a toddler in day care during workdays. One employee elects to direct \$5,000 into her Dependent Care Spending Account.

Employee 1 reduced her taxable income by \$5,000.		Employee 2 is taxed on her entire income.	
Employee W-2 Income	\$45,000.	Employee W-2 Income	\$45,000.
Pre-Tax Dependent Care election of \$192.31 per pay (26 pays per year)	-\$5,000.	Pre-Tax Dependent Care Election	-\$0.
Adjusted Employee W-2 Income	\$40,000.	Adjusted Employee W-2 Income	\$45,000.
Federal Tax on \$40,000.	-\$8,490.	Federal Tax on \$45,000.	-\$8,960.
Social Security and Medicare Tax withholding on \$40,000.	-\$3,060.	Social Security and Medicare Tax withholding on \$45,000.	-\$3,443.
Post-tax benefit contribution	\$0.	Post-tax benefit contribution	-\$5,000.
Take-home pay after contributions and taxes	\$28,450.	Take-home pay after contributions and taxes	\$27,597.
Increase in take-home pay after contributions and withholdings	\$853.	Increase in take-home pay after contributions and withholdings	\$0.
Examples are hypothetical and do not reflect state, city or local taxes. Estimated Federal Tax based on semi-monthly payroll with 1 withholding allowance assumes 7.65% for Social Security and Medicare Tax withholding.			

Claims Reimbursement Process

Benefit Concepts, Inc. "BCI" has been contracted to process your account. Once you have incurred an eligible dependent care expense, simply complete the claim form, attach the receipt for services (including the provider's tax identification number or social security number) and submit to BCI. Payments for covered expenses are mailed to your home. Claims can be submitted at any time but must be received by BCI within three months after the end of your group's plan year. Claim forms are available from your Plan Administrator.



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Examples of Eligible Expenses The items listed in this section are examples of covered expenses. There are stipulations on eligibility of some expenses. Expenses must be substantiated and meet IRS requirements for reimbursement. The IRS is the final determiner of eligible dependents and expenses.

Reimbursable Expenses		Non-Reimbursable Expenses
<ul style="list-style-type: none"> • Child care or babysitting services • Fully licensed dependent day care center • Pre-kindergarten school • Elder care • After-school care • Summer day camp • Certain expenses for a full-time housekeeper for a disabled dependent 	<ul style="list-style-type: none"> • Au pair services including: <ul style="list-style-type: none"> • Gross wages, limited to government regulated reimbursement rate in effect at time of service • Health insurance paid by you for your au pair • Expenses for food and lodging (e.g. if you had to rent a three-bedroom apartment, rather than a two-bedroom, so the au pair can live in the home, the extra expense for the additional room would be eligible). • Any agency fees, including an itemization of fees and services 	<ul style="list-style-type: none"> • Schooling costs for children in kindergarten or higher grades • Child care services provided by someone you claim as an exemption on your federal income tax return (e.g. your spouse) • Overnight camp • Housekeeping expenses not related to dependent care • Healthcare expenses for a dependent • Food or clothing for a dependent • Transportation costs between your home and a dependent care center • Late fees • Activity fees • Dependent care expenses you claim on your federal tax return • Au pair services including: <ul style="list-style-type: none"> • Transportation, including airfare • Au pair's processing and counseling fees • Tuition fees

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Important information about Healthcare Spending Accounts

This program offers a unique opportunity to reduce your taxable income. Therefore, the IRS places some important restrictions on its use. The IRS is the final determiner of eligible dependents and expenses. Please be aware of the following provisions before you make your benefit election:

- **Use it or lose it.** It is important that you calculate your contribution carefully, money left in your account at the close of the plan year submission period will be forfeited.
- **Elections cannot be changed.** Your election can be changed during the annual open enrollment or if you experience an approved "Change in Family Status". A "Change in Family Status" is defined as marriage or divorce, death of a spouse or dependent, birth or adoption of a dependent, or termination of your employment or your spouse's employment. A change in the cost or coverage for dependent care occurs when the current caregiver changes their price, the current caregiver charge changes due to a change in their hours of operation, your work schedule changes causing a change in your cost of dependent care, or you change to a different Dependent Care provider.
- **Elections may reduce your Social Security benefit.** Your contributions are not subject to Social Security withholding, therefore your Social Security contribution is lower. This reduction in taxable income may result in a reduced Social Security benefit.
- **Your election may have tax implications later.** If you are reimbursed for an expense under the Dependent Care Spending Account, it cannot be claimed as an income tax deduction.

Election Worksheet

Now that you have decided to participate in this plan, the following chart may help you calculate your estimated dependent care expenses for the coming plan year based on the current year's expenditures and anticipated changes.

Types of Qualified Expenses		Expenses for Current Year	Estimated Expenses for Coming Year
1	Cost for qualified dependent day care center	\$ _____ per year	\$ _____ per year
2	Pre-kindergarten tuition and expenses	\$ _____ per year	\$ _____ per year
3	Day camp (do not include overnight camp)	\$ _____ per year	\$ _____ per year
4	Other qualified expenses	\$ _____ per year	\$ _____ per year
5	FICA/other taxes paid for above providers	\$ _____ per year	\$ _____ per year
6	Add rows 1 through 5 to subtotal withholding	\$ _____ per year	\$ _____ per year
7	Based on your calculations, estimate your annual withholding amount for the coming year	\$ _____	
8	Divide row 7 by the number of pay periods in the year for your Dependent Care Spending Account election amount per pay period	\$ _____	
Once you have calculated your election for the Dependent Care Spending Account, transfer your election amount to the Compensation Reduction Agreement. Please remember to sign and date the form.			

If you have questions about your Dependent Care Spending Account, contact your Plan Administrator or call Benefit Concepts, Inc. at (800) 220-2600.

