Employee FAQ:
Dependent Care FSA

What is a dependent care FSA (DCA)?
A DCA is a flexible spending account that allows you to contribute a portion of your paycheck before taxes are taken out to pay for qualified dependent care expenses so that you can work or look for work.

Why should I participate?
Since contributions to the account are deducted from your paycheck before income taxes are assessed, your taxable income is reduced. Participants enjoy a 30% average tax savings on the total amount they contribute to the account.

How do I contribute money to my DCA?
Once you make your annual election during open enrollment, your employer will deduct this amount from your paycheck before taxes are assessed in equal amounts throughout the year.

How much can I contribute?
The IRS limits annual contributions to $5,000 on income tax returns for single or married filing jointly, and $2,500 for married filing separately.

Who qualifies as a dependent?
You can use your DCA to pay for care for children under age 13 that you claim as dependents, as well as adults or other relatives that are incapable of caring for themselves (if you provide more than 50% of their support).

What type of care is eligible?
Eligible expenses must be for the purpose of allowing you to work or look for work. Services may be provided at a child or adult care center, nursery, preschool, after-school, summer day camp, or a nanny in your home.

What type of care is not eligible?
Care expenses that are not eligible to be paid with DCA funds include care for a child over age 13, overnight camp, babysitting that is not work related, school fees for kindergarten and higher grades, and long-term care services.

Do I have access to my entire DCA election amount at the beginning of the year?
No, you will only have access to DCA funds that have already been deducted from your paycheck.

Are there any rules about who can care for my dependents?
Yes. You cannot use funds to pay for care provided by a spouse, a person you list as a dependent for income tax purposes, or one of your children under the age of 19.

How do I use the funds in my account?
If you have a benefits debit card and your care provider accepts MasterCard®, you may pay directly from your account. Otherwise, pay out-of-pocket and then file a reimbursement claim with your expense documentation.

What happens if I don’t spend all of my DCA funds by the end of the plan year?
It is essential to estimate conservatively during elections. Any unused funds at the end of the plan year are forfeited, also called the use-it-or-lose-it rule.

Can I change my election amount mid-year?
Typically, you cannot change your contribution mid-year. However, if you experience a qualifying event, such as the birth of a new child, or if your child care provider significantly increases their rates, you may be eligible to adjust your contribution.

What happens to my account if my employment is terminated?
Participation in the plan is also terminated. This means that only expenses that were incurred prior to your termination date are eligible for reimbursement.

Can I still deduct dependent care expenses on my tax return?
Yes, but not the same expenses for which you have already been reimbursed. If your total expenses were $7,000 and you were reimbursed $5,000 from your DCA, you may only claim the $2,000 difference.
What is the benefit of participating in the DCA versus claiming a tax credit on my tax return?

Generally speaking, those with less than a 15% tax bracket will be better served by the Dependent Care Tax Credit. IRS Publication 503 “Child and Dependent Care Expenses” provides full information about this tax credit and offers worksheets and aids for performing the calculations.

- If you are earning a moderate to high income, and particularly if you are filing taxes as “Married, Filing Jointly” (combining incomes with a spouse), the Dependent Care FSA is may be more advantageous. Reasons: Your tax bracket may be higher than 15%, the threshold generally regarded as the dividing point between the Dependent Care Tax Credit (best for those earning LESS) and the Dependent Care FSA (best for those earning MORE).

- Logically, if you have 1 child, the $5000 available through the Dependent Care FSA may be more generous than the credit arising from the $3000 limit imposed by the Dependent Care Tax Credit.

- Finally, the FSA saves not only income taxes (federal and state), but social security taxes as well. There are no social security tax savings offered by the Dependent Care Tax Credit. (Note: Your social security benefits could be slightly reduced by paying less social security taxes.)

Based on the average US income and average US Child Care Costs, here is an example of why participating in the Dependent Care FSA is a smart option.

Average US Salary is roughly $44,000.
Average cost for Day Care in the US is roughly $10,000 per child.
Average cost of After School Care (for older children) is roughly $7,700 in the US.

Here is the breakdown for claiming a credit on your tax return:
You can claim up to $3,000 on your tax return for child care costs if you have one child. If you have two or more children, you can claim up to $6,000. At the average salary of $44,000, 20% of those costs of child care you can be claimed in credit - meaning you can get a maximum of $600 in credit for one child and $1,200 in credit for two or more children.

Here is how much you save by setting aside the maximum $5,000 in your Dependent Care Account pre-tax versus paying out of pocket after tax:

<table>
<thead>
<tr>
<th>Paying for Dependent Care After Tax</th>
<th>Paying for Dependent Care Before Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earning $44,00 per year</td>
<td>Earning $44,000, but taxed on $39,000</td>
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<tr>
<td>Federal Tax (15%):</td>
<td>Federal Tax (15%):</td>
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<tr>
<td>FICA Tax (7.76%):</td>
<td>FICA Tax (7.76%):</td>
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<tr>
<td>State Tax (5.75%):</td>
<td>State Tax (5.75%):</td>
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<tr>
<td>After Tax Dependent Care Cost:</td>
<td></td>
</tr>
<tr>
<td>-$6,600</td>
<td>-$5,850</td>
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<tr>
<td>-$3,366</td>
<td>-$2,983.50</td>
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<tr>
<td>-$2,530</td>
<td>-$2,530</td>
</tr>
<tr>
<td>-$5,000</td>
<td></td>
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</tbody>
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Bring Home Salary Per Year: $26,504

Bring Home Salary Per Year: $27,924

The average person saves $1,420 for the year in taxes by setting aside the full $5,000 pre-tax!

To top this off - the average person also has spends $10,000 per year in Day Care costs for one child, so they could still claim the maximum $3,000 on their tax return, since you can still claim any additional cost over what you set aside pre-tax. For someone who spends $20,000+ for Day Care costs for two or more children, they could still claim the maximum $6,000 on their tax return.

Participating in the Dependent Care Flex Plan allows you to stretch your hard-earned dollars!

For more information, call 800-437-3539 P.O. Box 8188 • Virginia Beach, VA 23450 • www.flex-admin.com